★ HOW CLOSE TO THE BOTTOM? ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

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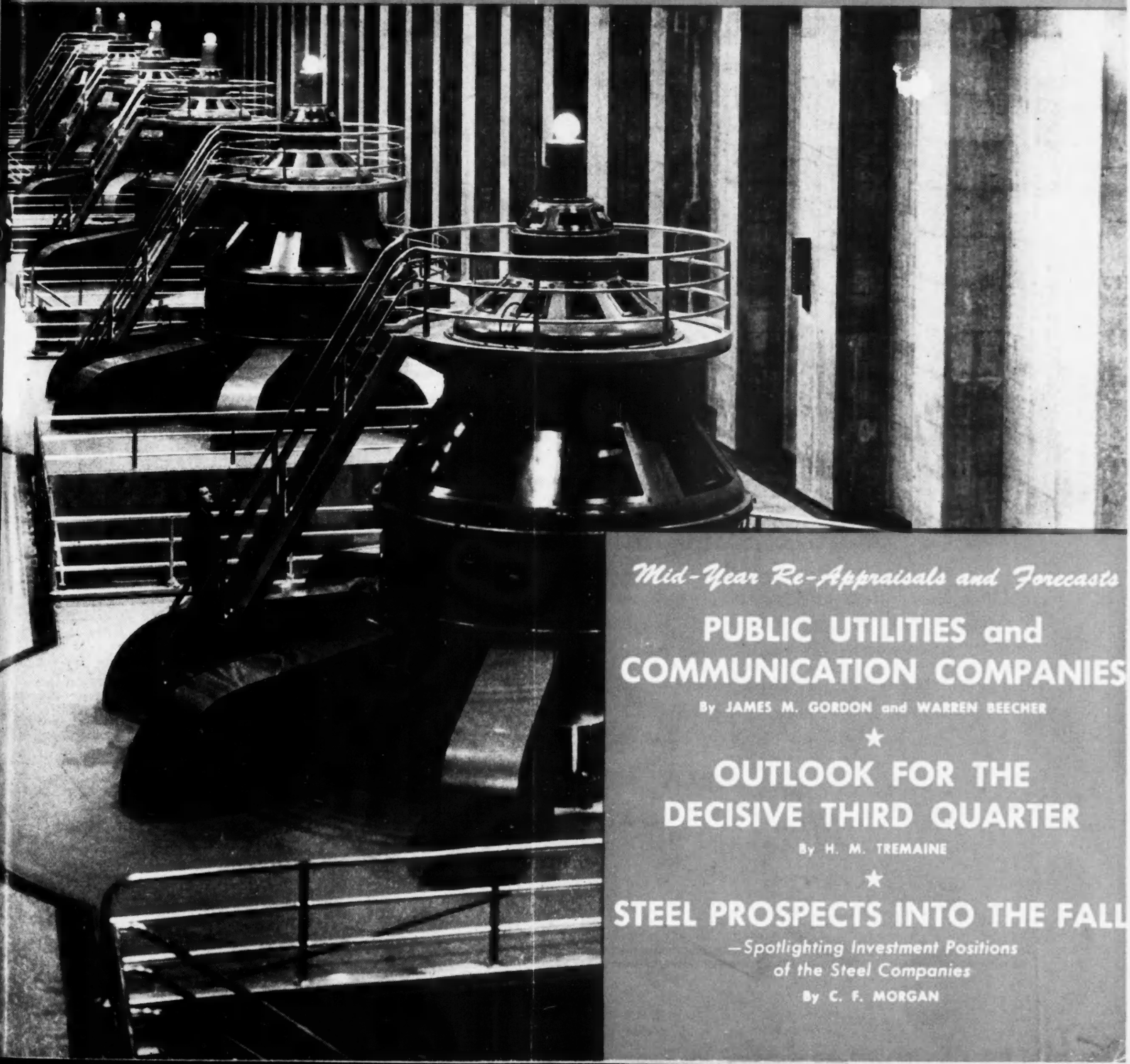

Mid-Year Re-Appraisals and Forecasts

PUBLIC UTILITIES and COMMUNICATION COMPANIES

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OUTLOOK FOR THE DECISIVE THIRD QUARTER

By H. M. TREMAINE

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STEEL PROSPECTS INTO THE FALL

—Spotlighting Investment Positions of the Steel Companies

By C. F. MORGAN

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and BUSINESS ANALYST

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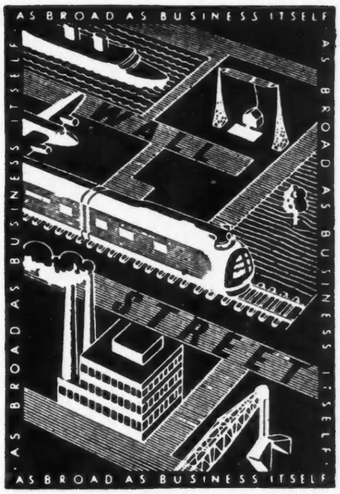
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher*



The Trend of Events

WORLD DOLLAR SHORTAGE . . . Deterioration of the world economy, though far more expressive overseas than in the American hemisphere, is none the less one of those unpleasant facts that no amount of optimism can hide. On a scale never before dreamed in any previous postwar period, nation after nation abroad simply must have food, essential personal goods and industrial equipment in order to avoid globe shaking economic and political chaos. Now that we are approaching the second anniversary of V-J Day, it is becoming clear that to avoid such a disaster, with its inevitable repercussions upon ourselves, we must at once raise our sights to envisage the realities that have been thrust upon us. As President Truman aptly pointed out in Ottawa, the Arsenal of Democracy has perforce been converted into the main source of supply upon which the survival of civilization must lean, not for a relatively short period but perhaps for a far longer time. As foreign made goods seem likelv to remain inadequate, as well as impractical, to offset the cost of vitally needed imports from the United States, and a continuation of patchwork loans to foreign Governments by Federal or private sources will provide no permanent solution of the problem, the shortage of dollars has become a veritable specter arousing all thinkers to the task of avoiding catastrophe ahead. Unless new and intelligent steps are taken, trouble in plenty is brewing.

It is evident that, like it or not, Americans lulled into a false sense of financial relief by the advent of peace and the present postwar boom, probably again will have to supply sacrificial dollars in some form or other, not only as matter of morals but for self preservation, and in totals involving multiple billions, just as was the case during war years. Whether revival of "give away" programs will be an issue, or creation of an "United States of Europe" provide a basis for sounder lending, remains to be seen. The burdens and risks which we must shoulder will be immense, and cannot be brushed aside. To determine the ultimate pattern for world recovery, in the light of current conditions, will call for prompt and bipartisan support of a move to study just how far and in what manner the United States can adjust our economy to the plan, without dragging everyone abroad and at home into undesirable misery. Not least in this task will be to appraise its impact upon industry, investors and the taxpayers over the medium and longer term, and on just whose shoulders the responsibility must be apportioned. Hence the call for creation of an outstanding Commission, as sounded by Senator Vandenberg and Messrs. Baruch and Hoover, should find an immediate and nationwide response. When the United Nations Economic Commission completes a similar survey of the European scene, the two studies combined will give a sound basis for action, and no dissidents at home or elsewhere can be allowed to sway the decision reached.

PROPHETS OF RECESSION . . . For some time past, the Magazine of Wall Street has held to the view that the near term outlook precluded a chance for

anything but a moderate downtrend in business activity. Despite rather pessimistic predictions to the contrary from some quarters, our opinion on this subject remains unchanged. The darker side of the picture has recently been presented by the Purchasing Agents Association of Chicago, which sees a decline in trade during the past five months, plus heightened competition as evidence that the recession has already reached significant proportions. But in support of this premise, this source leans heavily upon the fact that forward buying has now been reduced to a point where 84% of its members are placing orders requiring delivery within ninety days or less, whereas only 52% were so cautious at the beggining of the year. On sober appraisal, though, while the variation discloses a trend, its special character is entirely healthy rather than otherwise, and indicates nothing more than an encouraging approach to normalcy. As industrial output has expanded and deliveries stepped up, soundly predicated policies bearing on inventory controls naturally tend to eliminate former orders placed on a four or five months basis. Assuredly this is no signal that repeat business is likely to slow down further.

Now comes a rumor that President Truman's Council of Economic Advisers will soon be out with a report that no recession of significant proportions seems possible in the light of fundamental conditions. Many downward price adjustments, however, are to be expected, and during the process buyers at all levels no doubt will adopt policies more nearly akin to a hand to mouth basis until the air clears. But with employment at record heights and wages still trending upward, several years may elapse before supply and demand for essential goods and services really can come into balance, despite accelerated production. That some kind of a flux for prices will continue to feature the scene for some time ahead, and cause a moderate slow down, seems indubitable, but not enough to create serious apprehension. For the better part of a year to come, also, it looks as if sufficient dollars would be available to finance our greatly stimulated export trade at close to current levels. Recent statements by Mr. Jesse H. Jones that prophets of a depression may have overreached themselves are confirmed by many leaders in the equipment industries. These industrialists are confident that no let-up in the trend for modernization is in sight, and that well sustained sales of machinery, in itself, will assure a rather prolonged period of general prosperity. On balance, accordingly, optimism for the economy during the medium term seems wel warranted.

TAX VETO: The action of President Truman in returning to Congress the bill to reduce income taxes, without his approving signature, apparently puts the quietus upon this highly controversial subject, at least during the balance of this year. In basing his adverse decision largely upon the factor of ill-advised timing for any tax relief at all, and criticising the entire formula for lowering taxes, the President left no room for any hasty adjustments that might bring a change in his mind. Hence the whole matter will become a major issue in next year's election.

Repercussions of the veto have come fast and furious as you have seen in your daily paper. Acid comments have been hurled at Mr. Truman's head, and doubtless many of his own followers are worried over the potential reactions of forty-nine million taxpayers—and voters. Quite evidently, a great deal of presidential courage was needed to discourage passage of a measure carrying so much popular appeal, although if Mr. Truman reverses his stand prior to the election this may furnish him with an equally strong prop. After calm deliberation, many thinkers may not only opine that far too much importance has been allotted to the subject of tax relief during the current year, but even go so far as to applaud the President for acting as he did. Many of the reasons presented by him in accounting for his decision are likely to seem more rational in the light of serious study, or at least appear worthy of further debate. At worst, the deferment of tax relief for a time can only result in building up Treasury resources to a surprisingly encouraging level. While this process may seem annoyingly burdensome to most taxpayers for a relatively few months, to consider it calamitous or unfair would hardly bear reasoned analysis.

The sensible time to reduce the public debt is when there is plenty of money in the public pocket to allot for this laudable purpose. During times such as the present, also, when a further rise in the inflationary spiral threatens, the suggestion to siphon a substantial portion of spendable income away from the public, and use it for debt reduction, might prove entirely sensible. Such a course could tend to hasten the needed price adjustments in the offing, discussed elsewhere in our column, now seemingly the main handicap in restoring the economy to a desirably even keel. At this point, though, the advocates of immediate income tax relief have a valid argument in stressing the need for holding purchasing at the highest possible level in order to absorb our constantly expanding industrial output. Thus while there are two sides to the controversy, as usual, the question resolves itself as to whether it is wiser to stimulate the current boom or to strengthen the public cash resources while the most opportune time in history is presenting itself. It seems to us that the dire threat of an economic collapse in Europe, as pointed out in another editorial, provides an adequate answer to the puzzle. Until this major international problem is solved—and the long range financial aid we shall all have to render is fully appraised—it would seem a poor time to start a tax reduction program that within a year might conceivably have to be revised upward again. The chances are strong that Mr. Truman, in running counter to his political opponents and a great many of his own party on Capitol Hill, had a good many things in mind that for one reason or another he thought better to omit in his message. Everything considered, we like to think that this was true, and that in time history will support the President in his stand. Meanwhile, much as every taxpayer would welcome the advent of more spending money, there is small room for gloom just because it won't begin to appear as scheduled on July 1.

(Please turn to page 354)

As I See It! BY CHARLES BENEDICT

PRELUDE TO CONQUEST

THE incredible—or at least what seemed incredible to the many guileless utopians in our land—has come to pass. The Russia, who lulled them to sleep with assurances that she had no ambitions and no need for additional territory, is now on the way to establishing rule-by-chaos in one European country after another—and Asia too. Russia is pursuing this course firm in the conviction that the U. S. will bark—but, never bite!—they expect the strong opposition from pressure groups to stop decisive action.

On trumped up charges of one kind or another the Kremlin has begun a mopping up process through its well-organized and established minorities fostered for that purpose — and carefully built up under cover of the delaying process of the veto. The Reds are speeding up their machinery fearing that the rebellion in the United States and Britain against the veto may result in action that might force Russia's ouster or withdrawal from the United Nations before she has acquired an empire. Hungary is merely the prelude to a broad campaign.

There can be no mistake now about Russia's intentions, so that those who labeled the possibility of Russian expansion as fantastic, (citing as confirmation the already vast territories included in the Soviet Union), would do well to courageously take steps to correct the damage they have already done by having too much faith in Russian avowals. Instead of advocating further appeasement as a face-saving gesture, it would be better to acknowledge their errors of judgment and urge direct action on our part to stop the great tide of Russian aggression which is rapidly gaining momentum. Unless this is done, the fifth column in our own country, which has already reached dangerous proportions, will be encouraged to continue to carry on its nefarious schemes to destroy the United States Government and usher in a wild and unrestrained revolution.

Loring in the Evening Bulletin, Providence

"NATURALLY, BUT HOW?"

At the moment the citizens of this country are being bombarded by various pressure groups — with Russian apologists and anti-communist religious forces all clamoring for tolerance of Russia and minimizing red activities in this country. No wonder this bewildering propaganda is creating utter confusion. While much of this is purposely designed to produce uncertainty and inertia, a great deal comes from sources seeking special privileges and advantages of one kind or another. In fact, many are so blinded by immediate self-interest, that they refuse to contemplate the longer term consequences of the steps they advocate, — recklessly choosing to ignore the truth that a red success would react against them with equal force.

In the meantime, their ill-considered advocacy is building red power in this country, already so strong in labor that leaders like Phillip Murray and David Dubinsky have been obliged to compromise with this destructive influence. Caught in the web of circumstance under the projected labor legislation, conservative leaders are in effect collaborating with the leftist group to prevent the passage of labor legislation designed to outlaw and minimize the power of communism.

This situation grows increasingly dangerous as labor control is one of Russia's chief aims. It is the source of her power everywhere. In France and Italy the Kremlin is now busily engaged in fomenting strikes to minimize the effects of the Truman Doctrine, while her propaganda guns are being trained on the United States seeking to create the impression that our foreign policy is responsible for current Russian aggression—which is in line with the well-developed totalitarian method of laying the blame on their victim.

In this way the Reds are hoping to draw our attention from the fact that Russia is now on the march, and unless we stop her we can expect she will seek to absorb the rest of the Balkan states; take over Poland; and overturn the governments of Italy and France. And, while concentrating our attention on Europe, *(Please turn to page 354)*

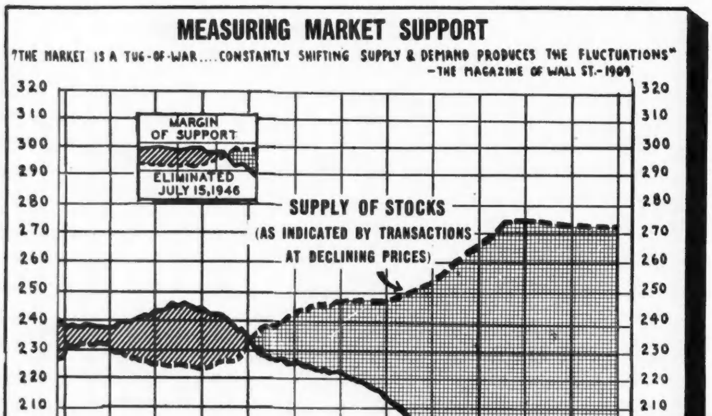
How Close to the Bottom?

The only prudent assumption to be made is that we are seeing another rally, aided by favorable seasonal tendencies, in an unfinished bear market. It may go further, without changing this premise. We do not advise buying on it, and continue to recommend maintenance of around 50% liquidity as a general rule in typical investment accounts.

By A. T. MILLER

The market has rallied considerably, under the leadership of better-grade stocks. The immediate technical indications appear to hold promise of further possible recovery. There is also the fact that the seasonal tendencies have always been more or less favorable from around this period into July at least, and often into August. There is a more cheerful feeling about the state of general business, as a result of the continuing good level of retail trade, the record high May employment figures reported by the Census Bureau, and other routine statistics which show no significant deterioration in over-all economic activity yet. Judging by the sharp rise in the price of gold stocks, the persistent rumors concerning an increase in the price of gold may be an important stimulant.

On the other hand, if it is merely a rally—rather than the start of a bull market—there is no percentage in investors attempting to do anything about it, excepting perhaps to regard it as another fortuitous chance to sell undesirable holdings on strength, in instances where not enough cash reserves are held. As a general rule, we continue to recommend maintenance of a 50% liquidity.



The Technical Considerations

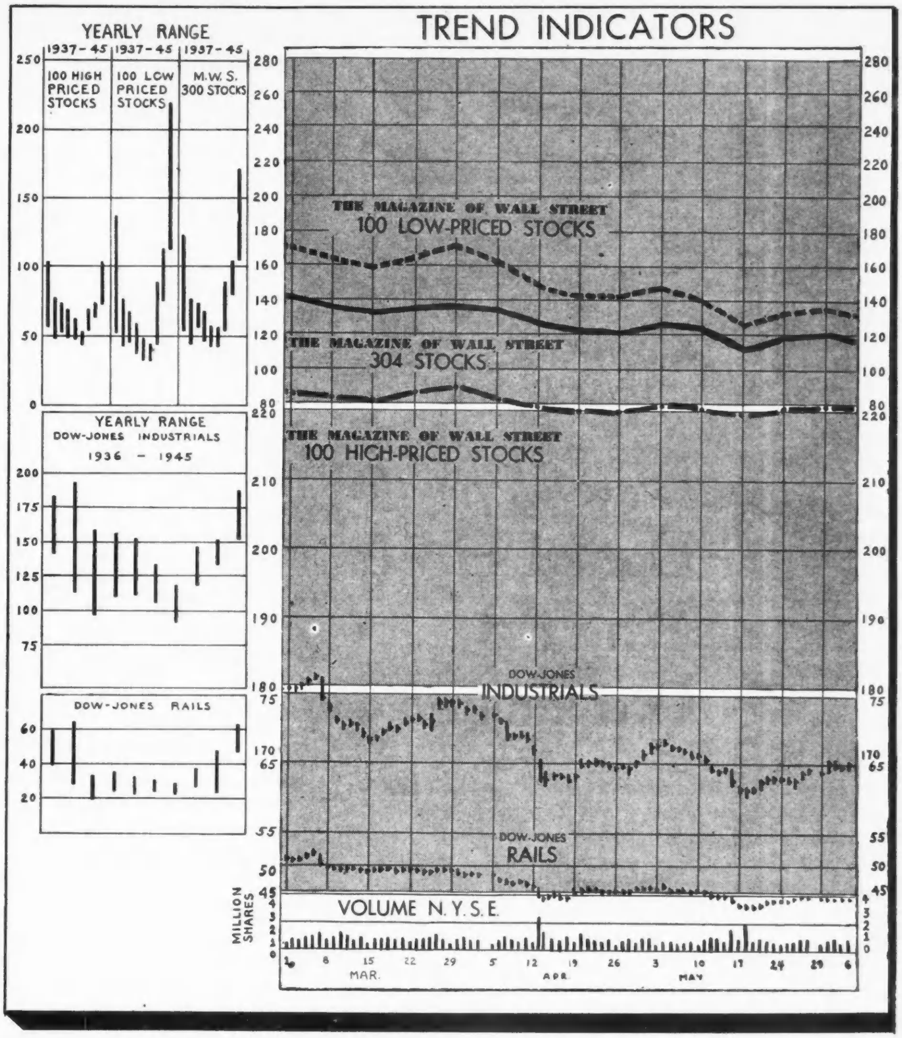
Our Support Indicator, charted on this page, reflects considerable improvement in the balance between supply of stocks and demand for stocks, but not a sufficiently decisive change to provide buying evidence. As noted heretofore, the rally has been led by good-grade stocks. Thus, our index of 100 high-price stocks has retraced all ground lost since April 5; and the Dow-Jones industrials have done roughly the same in making up about 60% of their maximum decline from the February intermediate-rally high. Against this, the index of 100 low-price stocks is still below where it stood as late as May 10, and has made up only about 40% of the drop from this years' best level. We cite the details because an important question is involved. What is the significance of "good" leadership?

The common view is that it is encouraging; that it carries weight. Yet the fact remains that a bull market is essentially a speculative phenomenon, fed by hope of capital gain; and that the bull-market preference for speculative stocks, especially those of low price, is founded on the historical reality that they are the biggest profit-makers when carried at the right time. The high-price stocks have usually led only in the initial bull-market phase — the phase of fairly slow revival, without much public participation, from a bear-market low; and such lows heretofore have always been at price levels much more extremely depressed than the worst level yet seen in this instance.

If there has been no basic change in the character of the market, the thing to emphasize is that the speculative sections of the list — the low-price stocks in general, the rails, the utility holding-company issues — led the February-May decline. They were more indicative of underying trend than the so-called good-trade stocks. On this reasoning, continuing laggard action by the speculative section would suggest that the Dow industrials, and our index of 100 high-price stocks probably will top out fairly soon

whether at a level under the February high or one not significantly above it. Thus, the greater part of the "summer rise" might have been seen by the end of June.

Much depends on the news. It has not been felt that there was much chance for surprise in the President's action on the tax bill, expected imminently as we go to press. In short, the market has prepared itself to ignore, or virtually so, an anticipated disappointment. But the labor legislation is something else again, to be watched until it is disposed of between now, June 16, and June 20. The consensus for some time has been that this would become law, with or without Mr. Truman's approval. It may very well be correct. We have no basis for questioning it. Yet the fact must be noted that a handful of Senators hold the answer, if it is a matter of a veto; and that during this waiting interlude they have been subjected to the most relentless pressure, some of it from Cabinet and high Party sources. We must reason that a favorable outcome would be unlikely to help the market greatly, since that is what has been expected and largely discounted. On the other hand, and unpleasant surprise on this score could find the market quite vulnerable, as a result of the degree of rally it has already had.

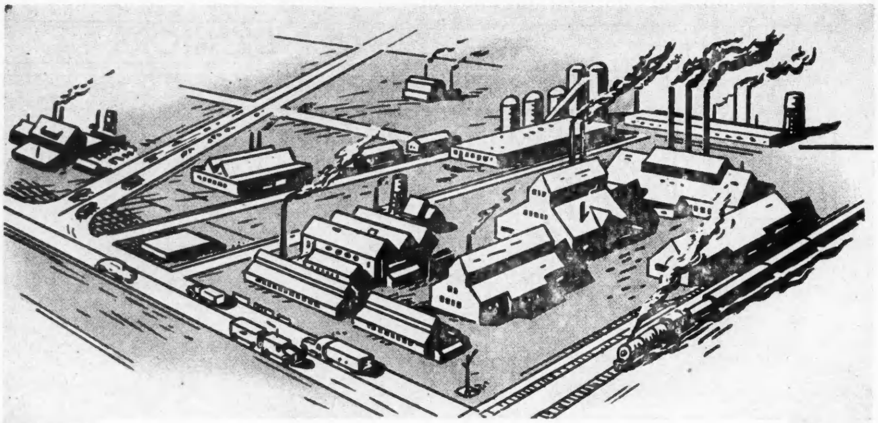


Another Look at Fundamentals

We have noted that the leadership on the rally to date is similar to what is normally seen in early bull-market phases. Could that mean that we are back in a bull market? In stock market analysis, not many things can be said to be completely impossible. All one can do is attempt to reason along lines of apparently logical probability. There are a number of reasons for doubting that a bull market has begun. Perhaps the most compelling one is that, if a bull market were now in progress, that would mean that the bear market, which took our low-price stock index down about 55% in roughly a year's time, was an accident or a mistake, having no relationship to any coming adverse change in business. Production, trade, earnings—all these are still at boom levels. No bull market has ever started in such an environment. Two lines of reasoning, therefore, are open. First, the troubles which the bear market anticipated over so lengthy a period are still ahead, in which case at least additional tests of market fortitude are certain to come after the present interlude of rally. Second, on the theory that there is nothing wrong in the economic outlook, could the old bull market be revived, considering what has happened merely as a very deep and long "reaction"? It would be a pleasing theory, but we are unable to see any substance in it.

A cyclical peak in economic activity is never sharply defined. The topping out process has always been spread over a considerable period, during which there are many contradictions and confusions. The financial indicators, including the stock market, have been the most sensitive and accurate barometers. Production can stay near a boom level for months after the more sensitive indicators have turned down. And retail trade and employment have in the past made their highs anywhere from several weeks to several months after the peak month for the production index.

Perhaps the thing to do here is to try to look at the forest. The trees—and what is going on in this or that industry—are too confusing. Consumer buying power is still in an unchecked downtrend, its peak having come early in 1945. (This is simply to say that living costs have outrun the monthly increases in national income *(Please turn to page 354)*



Outlook for the . . . Decisive Third Quarter

By H. M. TREMAINE

However troublesome other questions may be—and there are many in this troubled world—the question of what lies ahead for business is undoubtedly the most immediate and the most pressing. One might add, that it is also a question on which one finds no unanimity at present.

Certainly the outward signs, so well played up according to intent or conviction, give far from a conclusive answer at this stage. Both optimists and pessimists can cite an array of tangible factors to support their views and prognostications, and in recent months it would appear that the pessimists have had the best of it. Thus the idea that we are headed for a slump of the 1920-21 pattern has gained wide acceptance. There are others, a minority, to be true, who beyond that can see nothing but a straight slide into depression. The former group has at least the support of certain economic manifestations though these are far from conclusive and disregard a good many factors that defy the logical drawing of an exact parallel. The latter, the deep pessimists, seem to have nothing more concrete to go on than their own somber conviction that our current world economic disequilibrium can only be corrected by the purgative of an all-out depression.

Fortunately such an extreme viewpoint is shared by relatively few. The concensus rather is leaning to the view that we will have a decline from the present high level of business though ideas differ as to the length and severity of such a recessionary period. The timing of the recession, too, seems still a primary difficulty. Some say it has already begun; other prefer to await more definite indications before they admit that a real downturn is at hand. It may well be that the third quarter, will afford a clearer perspective of economic trends. Third quarter developments may hold highly important connotations.

It is but natural that in an environment of uncertainty at present, current business trends receive heightened attention in the quest for clues of what to expect. Ascertaining trends is one thing, of course, and their interpretation quite another.

Industrial Production Off Little

Thus some have seen in the recent decline of the Federal Reserve Board Index of Industrial Production a sure sign that the much-vaunted recession has at last gotten under way. This index dropped from 190 in March to 187 in April, a drop chiefly brought about by a decline in certain soft goods lines, notably textles, and by scattered small stoppages in durable goods production. But there is reason to believe that this small drop in the overall index has already been halted. Though the moderate decline in non-durable goods output may have been further extended in May, total industrial production was probably strongly supported by restored activity in the durable goods field. The latter shows every sign of continuing its boom; even in the soft goods lines, supposedly the weakest sector, there is evidence of a turn for the better, giving reasonable assurance of extension of the current high level of overall business activity well into Autumn though naturally there will always be irregularities among individual lines of business. The soft goods boom may show signs of passing but the real test is yet to come. It is doubtful whether it will come during the third quarter.

Much more likely we shall continue to be aware of further rumblings of a recession, the actual advent of which may not occur until early 1948. By this postponement, and such is a real possibility, we shall have gained valuable time, time that will enable us to institute corrective or ameliorative measures which may well "soften the blow."

The apparent subsidence of the boom in non-durable goods is evidenced by the fact that most such goods are now in fairly plentiful supply, and tha

these industries have largely caught up with current orders. Their production and employment thus is beginning again to follow a normal seasonal pattern, durable goods, on the other hand, are still going strong, though here too, shipments in some lines are now ahead of incoming orders. In the future, therefore, the amount of new business may constitute a more important criterion of business prospects than the existing order backlog.

No Serious Business Deterioration

Despite an increasing number of cross-currents, there is no forceful indication that business generally will face early deterioration. Consumer purchasing power remains high; farm income is maintained at near record level; demand for labor is generally well sustained; despite spotty conditions in certain lines; there is no great unemployment; worker productivity, though still leaving much to be desired, is on the upgrade. Above all, the capital goods backlog remains most impressive and capital goods activity, traditionally, forms the backbone of all booms. Readjustments in soft goods lines certainly look small in comparison with the tremendous demand for steel, automobiles, industrial equipment—with the huge backlogs of the heavy industries indicative of strong and urgent demand even at today's high prices.

For example, the steel industry is currently operating at postwar record rate of 97% of capacity; for many months, the rate has been well above 90%. This means enormous output, yet demand for virtually every steel product continues unabated, in excess of supply. The shortage of steel, particularly sheets, has been hampering other industries including the important automotive, railroad equipment and farm equipment industries. It is difficult to see how this enormous demand for steel, bolstered by huge export orders, could peter out in the near future to the extent where profitable steel operations will no longer be possible. Yet such a possibility was at least tentatively held out by some steel men by calling attention to the events of 1920-21. Under today's conditions, however, such a parallel would seem wholly unrealistic. For full particulars of steel prospects into the Fall turn to the steel article in this issue.

No important recession is forecast for the third quarter if our army of workers stays on the job

Or take the automotive industry, another key industry. Its future rate of activity will have an important bearing on our overall economy. Demand for automobiles is insatiable, despite high prices, and importantly, new orders continue to surpass shipments. Were it not for the severe shortage of sheets and strip steel, the industry would be roaring along at a much faster production clip, six million cars annually or better. Despite handicaps, output this year promises to come close to five million units, a very respectable showing. As the steel supply comes into better balance, late this year when new facilities for sheets and strip steel are expected to be in operation, a high rate of operations—barring strikes—is assured and should continue for many months. It is now thought that not until 1949 will there be a clear-cut return to a buyers' market.

Elsewhere, too, high rate of activity, based on urgent demand, is indicated for months to come. This is notably true in the railroad equipment field, long held back by the steel shortage. The pressing need for tens of thousands of new freight cars (not to mention passenger coaches) is well known, is indeed so great as to endanger seriously the efficiency

of our distribution system.

The farm machinery industry, similarly handicapped by lack of steel, has enormous order backlongs; with farm income maintained at record highs, no slackening is indicated. The office equipment industry has only in recent months been able to get into full stride, with output now at historic record levels and with bookings sufficient to insure capacity operations for many months.

Demand Still Unsatisfied

Other industries where no slackening of demand is in sight include paper, chemicals, glass and containers, copper and lead, and above all oil. The production and earnings peaks recently established by the petroleum industry are truly impressive; nevertheless there is talk of an impending oil shortage rather than of oversupply. To all these must be added the building materials group; despite disappointing construction volume, building activity is by no means small and materials production remains at high levels.

Superimposed on the excellent domestic demand potentials in these and other fields is the enoromus call for exports for goods of virtually every type, including prominently capital goods and food stuffs. Our exports are currently running at an annual rate of $16 billion and what with our new loan policies, there seems no early end to it. Exports today hold a strategic position in the business outlook. Without them we would probably already have experienced a noticeable slump of production and prices.

Without doubt, some of the important big factors in the current boom have lost or are losing steam. Building construction is disappointing, inventory accumulation is showing definite signs of slackening, capital expenditures by industry is likewise tapering off. Exports, however, are far above most optimistic expectations but added financial assistance to foreign countries will certainly be required to keep them at present levels.

In short, the over-all outlook for the third quarter is singularly lacking in concrete evidence of an impending drastic downturn in business. Despite public pre-occupation with the prospects of a recession, it is not particularly astonishing to find that there has been of late an almost imperceptible shift of sentiment. The prospect of a corrective period is no longer doubted by anyone; a readjustment particularly in the price structure, accompanied by temporary setbacks in business, is necessary for future prosperity and must therefore be regarded as distinctly salutary. But increasingly it is felt that while this readjustment is going on, demand generally will carry along at highly satisfactory levels and may even flourish as increased productivity enables volume to gain at the lower prices eventually expected to rule. Business sentiment has picked up in recent weeks because there is evidence that readjustments of prices is taking place in orderly fashion and is a long way from becoming a rout; because there is less reason for anxiety over inventories and inventory losses and because overall demand continues strong. In short, because the evidence so far points to continuation of boom conditions at least until late this year, and to probable absence of violent upsets as the corrective period runs its course.

Two Sore Spots

Housing and food costs are two "sore spots," standing in the way of sustained prosperity. Observers would feel even more encouraged if the readjustment in the building lines were proceeding at a quicker pace, permitting increasing building activity. Food costs, while somewhat lower, are still very high, a potential threat to the public's ability to buy consumer durable goods. New rise in meat prices is disconcerting.

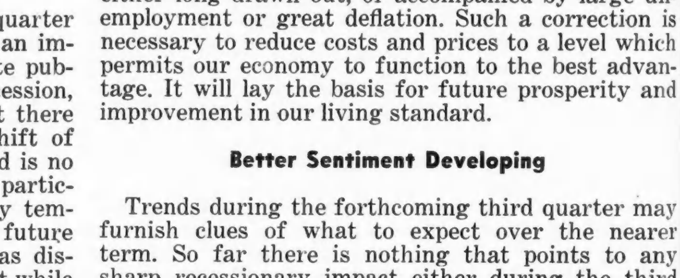
The recent improvement in business sentiment has been enhanced by congressional passage of the labor and tax bills, both—as this is written—awaiting final action by President Truman. Enactment of the labor bill, if necessary over the President's veto, seems fairly well assured but the tax measure appears not so well placed. It may well fall victim to politics.

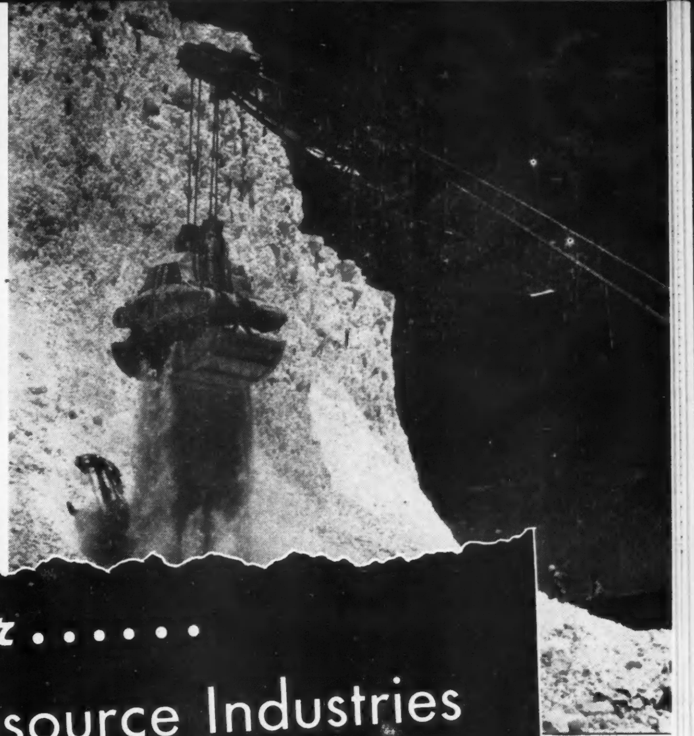
Fundamentally, the decision on curbing the powers of the labor unions unquestionably is more important businesswise than the tax issue though tax relief is one of the primary requirements, whether or not a downturn in business is impending. Tax relief, if it fails to materialize this year, will almost certainly come next year. The labor bill is a constructive step, making for more equitable and stable labor conditions. The psychological impression of a Presidential veto, even if subsequently overridden, must not be underrated. Such a veto may well prove disheartening to the business world and may remove a much-needed factor of confidence that would be extremely helpful in keeping the recession within modest limits.

Everything considered, the factors of strength inherent in our postwar economy appear such as to defy any effort of our being "talked" into a depression. While a temporary slow-down and corrective period is anticipated, it is not likely that this will be either long drawn out, or accompanied by large unemployment or great deflation. Such a correction is necessary to reduce costs and prices to a level which permits our economy to function to the best advantage. It will lay the basis for future prosperity and improvement in our living standard.

Better Sentiment Developing

Trends during the forthcoming third quarter may furnish clues of what to expect over the nearer term. So far there is nothing that points to any sharp recessionary impact either during the third or the final quarter of this (*Please turn to page* 352)



The Prospects for . . . . . .
Our NATURAL Resource Industries

By JOHN C. CRESSWILL

Signs have appeared recently of growing difficulty by our mineral resource industries, heavily depleted during the war, in meeting the tremendous aggregate of postwar demands from deferred civilian consumption, normal growth, and foreign reconstruction. Production of iron ore, copper, lead, and zinc continues to lag behind requirements and as a result is holding back many industries.

Numerous other minerals, of secondary importance but nevertheless classified as "strategic" during the war because of their essential character, likewise have become depleted to the point of diminishing output and rising costs. Scarcities are indicated not only in the long-range outlook but, in some cases, during the years immediately ahead. Such conditions make timely a balanced reappraisal of the prospects for our natural resource industries.

For example, the rich iron ore deposits in the Mesabi pits are said by some experts to be approaching exhaustion; yet other experts point out that the same predictions were made after World War I and declare that iron ores will be available there at reasonable prices to last for the next 400 years—until the Atomic Age has solved all our problems of materials. Steel industry leaders cannot agree among themselves.

Another example is crude petroleum, whose exhaustion has been predicated ever since oil was first discovered in Pennsylvania. When U. S. production reached 1,000,000 barrels per day, many people were convinced that the end must be near. That record was established in 1919, yet despite our having taken out over 29,000,000,000 barrels in the meantime, production in 1947 has several times exceeded 5,000,000 barrels per day.

Merely because a cry of "wolf" has proven false again and again, however, is never justification for disregarding it. We know that there must be some limit to these resources, even though we cannot predict it within close accuracy. Furthermore, in the case of certain minerals, a serious shortage is already developing.

By shortage is meant, of course, a relative shortage as compared with demand. Since demand is changing constantly, this relationship also changes. Conditions sometimes shift from scarcity to surplus and back again quickly. Allowance must be made for the abnormally heavy but temporary consumption of minerals since the end of the war for reconversion and extension of industrial plant and equipment, railroads, utility systems, public works, and export trade. Moreover, substitutes must be reckoned with, such as aluminum displacing copper, and plastics replacing metals.

Furthermore, the publicly available statistics on mineral resources call for great care in their interpretation. So-called "proven reserves" mean little unless one knows the character of the various deposits and probable costs of extraction. Mining companies tend to value their reserves on a very conservative basis because of tax consideration. Discovery of additional or new deposits is unpredictable, despite great advances made in geology and scientific exploration.

Our Three Main Natural Resources

Our No. 1 natural resource is coal, which is of prime importance throughout our economy, while No. 2 is iron ore, and No. 3 petroleum. Coal provides more than nine-tenths of the total power produced by all fuels. Fortunately, there is no scarcity here, the known reserves being estimated to last hundreds

Photo by Ewing Galloway

New methods can utilize lower grade ores in the Mesabi Range

of years, even at the present high rate of output over 2,000,000 tons daily.

Due to the fact that the coal mining industry is widely scattered and operated by over 2,000 closely-owned corporations, plus many individual proprietorship and partnerships, the securities of only about 40 coal mining companies are publicly available, and only a few are actively traded in. The outstanding company—Pittsburgh Consolidation Coal—accounts for only about 3% of the industry total.

One of the reasons prompting the formation of this company two years ago by merger of the Pittsburgh and the Consolidation companies was to intensify research efforts on new uses of coal and new methods of utilization. One practical fruit of this research is an announcement just made for a series of new plants to be built in coal consuming sections of the country, starting near Pittsburgh, which will use coal in a low-temperature coking process to produce smokeless solid fuel. In addition it will recover valuable tar by-products, including (1) tar acid oil, used in disinfecting and cleaning compounds; (2) cresote, used in wood preserving; (3) fuel pitch, used as industrial fuel by steel mills; and (4) pitch coke, used for purifying water and industrial gases.

The company plans also to start work in the near future on a large commercial plant to convert coal into gas, which can be used for heating during the winter season, and the rest of the year to convert this gas into motor fuel. Such developments may affect the petroleum situation.

Methods Developing to Use Poorer Ores

Our No. 2 resource—iron ore—unfortunately is not in the same abundant supply as coal, even admitting the differences of expert opinion referred to above. The ores in the Mesabi Range, located mostly in Minnesota, really consist of three classes of deposits: the high-grade ore on the surface or under shallow glacial drift, the intermediate low-grade ore beneath it, and then huge seams of low-grade ore-bearing rock so vast as to make infinitesimal by comparison the rich desposits worked thus far.

What has happened is a skimming off of the "cream." To maintain production in the future will mean deeper digging and more treatment of the ores, but metallurgists have already developed methods of recovery at reasonable costs. More power shovels will be needed, such as those made by Bucyrus-Erie and Marion Shovel, and more mechanized equipment such as that made by Joy Manufacturing and Link-Belt for handling the ore. Even today, these methods have made it profitable to re-work dumps into which lower-grade ores were thrown away only a few years ago.

U. S. Steel and numerous other large companies own extensive ore deposits of their own, but most of them in addition purchase ore and pig iron from other sources to meet peak demands, rather than attempting to supply their entire requirements and thus carry idle properties during slack periods.

As to the overall long-term outlook for ore supplies, it would seem prudent to withhold judgement. It may be true that the high-grade Mesabi deposits will be used up within the next twenty years. Yet, aside from the lower-grade desposits available, there is no reason why this country should not import iron ore from other countries having large deposits, as we are already doing to a limited extent. Moreover, the supply of scrap, almost as important as ore, should automatically ease in time with the increased production of steel.

Finally, wartime trends may continue of using stronger steels but less weight for the same purpose, and of substituting for steel the lighter metals of aluminum and magnesium as well as new plastics.

Our No. 3 resource—petroleum—is becoming the basis of the nation's mobile power, as coal is the principal source of stationary power. The rapid long-term growth in the consumption of gasoline and domestic fuel oil prior to the war was checked by rationing, although total consumption continued to increase.

The American public is again on the road and the total number of cars and trucks is being augmented at the rate of almost 100,000 weekly. A large proportion of homes are now heated by oil, and every coal strike causes more people to shift over. Practically every new locomotive being built today is diesel-powered, and the same is true of most Navy and merchant ships built recently. Motor boats and outboards are swarming over the lakes and rivers. Lubricants have had a corresponding growth. Synthetic rubber and chemical production now use large amounts of petroleum.

These demands will add up to an average of 5,652,000 barrels per day in 1947, according to a U. S. Bureau of Mines estimate, considered conservative. The tremendous growth in the petroleum industry during the past thirty years, measured by domestic production and domestic demand, is shown in the accompanying chart.

Despite large stocks of refined products built up in storage early this year, the soaring demand has caused some pinch in supplies. A number of the big oil companies have openly expressed their concern over the longer-term outlook. They no longer have a problem of selling gasoline, but of producing suffi-

cient to meet the demand. Much of the gasoline advertising planned for the next several months has been cancelled. Now refining plants are under construction, but most of the new capacity will not be in full operation for a year or more. During the war little addition to capacity could be made, except for high-octane aviation gasoline. Some of the refineries in New Jersey have actually shifted to coal furnaces to save oil used for their own fuel.

Oil Imports Can Be Increased

About four-fifths of U. S. domestic production comes from the four states of Texas, California, Oklahoma, and Louisiana, with most of the rest coming from 15 other states. Normally the domestic production is supplemented by imports in order to meet the total domestic demand plus exports, and there is no reason why imports cannot be stepped up substantially if necessary.

Several of the large American companies already hold extensive oil lands or leases in foreign countries such as Venezuela, Colombia, Peru, Canada, Dutch East Indies, and the Near East (Iraq, Saudi-Arabia, Egypt, and Bahrein Island in the Persian Gulf) which will be of increasing help in supplying our needs in the future. In addition to the world-wide operations of such companies as Standard of N. J. and Socony-Vacuum, others having important foreign interests include Atlantic Refining, Barnsdall Oil, Gulf Oil, Phillips Petroleum, Pure Oil, Sinclair Oil, Standard of California, and Texas Co.

In the search for more petroleum our domestic industry has actually gone to sea! Our drilling has been extended to deposits off-shore—in some cases several miles — into the Atlantic Ocean, Pacific Ocean, and Gulf of Mexico. Vast oil-bearing shale deposits have for years been explored, and can be worked commercially whenever justified by demand and price. Natural gas conversion into high-volatile gasoline can be expended rapidly. Prospecting is still going on in the Pennsylvania fields, birthplace of the petroleum industry, and new wells are constantly extending its useful life. Every barrel of oil produced today gives a far greater yield of quality products than heretofore, due to improved cracking and refining methods. At the same time, the efficiency of combustion is being raised by constant improvements in automobile engines, diesels, oil burners, boilers, and turbines, with still better engines to come.

Outlook for earnings of the large oil companies is favorable in view of the supply-demand situation, plus the fact that prices of refined products have advanced moderately this year. Another source of added and more stable earnings to many companies is their entrance during the war into the chemical field, where their products go into synthetic rubber, acids, alcohols, solvents, and numerous derivatives.

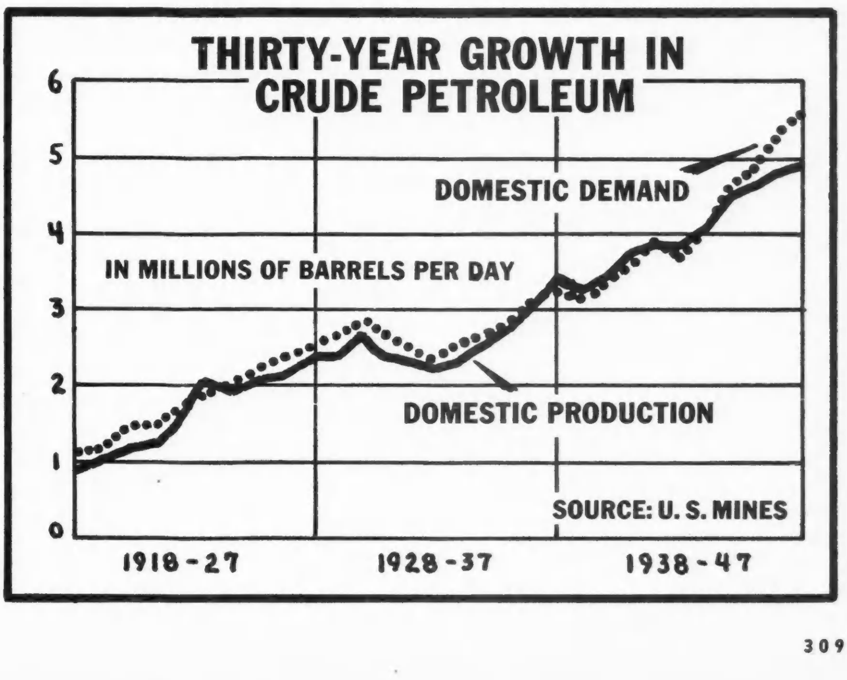
Ranking next in importance to coal, iron, and oil are the three "base" metals—copper, lead, and zinc. These have esential uses in practically every industry. During the war their production was stimulated by subsidies, distribution was allocated rigidly, and there was a heavy depletion of U. S. reserves.

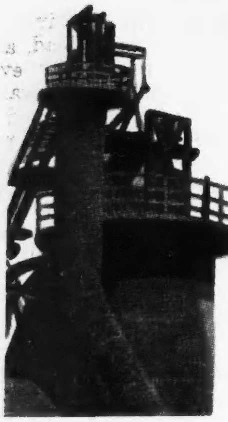
Since the end of the war there has been acute shortage of these metals in this and other countries. When OPA price controls were removed last Fall, copper advanced from the June 30, 1946 ceiling of 14⅜c to 23⅞c, and is now selling at a split price of 21½c for domestic and 24c for foreign; lead advanced from 8¼c to 15c, and zinc from 8¼c to 10½c, the present quotations. Thus all three are around their highest level in twenty years, contrasting with depression lows of4.56c, 2.65c, and 2.30c, respectively.

The current tight situation resembles that of steel and stems from the same causes of deferred civilian needs, replenishing of distributors' stocks, and foreign reconstruction. There is considerable evidence, however, that the abnormal demand is now tapering off, while supply is expanding due to the higher prevailing prices as well as heavy production in mining, smelting, refining, and fabricating branches of the industry. New capital investments made since the war are also adding to production and lowering costs,—thus offsetting higher wages.

High prices have stimulated the collection of scrap metal, on which prices recently have weakened. Unfilled orders have been declining for several months but are still high, and some of the largest users, such as manufacturers of electrical equipment, are still booked ahead for more than 12 months.

In the copper industry, the three largest producers are Anaconda Copper, Kennecott Copper, and Phelps Dodge, which are reported to control about 83% of the known domestic copper reserves, 62% of refined output, and (through subsidiaries) 65% of the brass and wire mill facilities. These companies have large foreign holdings also, and are estimated to own about 41% of the known world ore reserves. Although Chile is the (*Please turn to page* 346)





STEEL Prospects *into the Fall*

By C. F. MORGAN

Photo by Firestone Steel

Steelworker turning out new wider rims engineered to hold both beads of a tire to eliminate tire wobble

The steel industry has been generally regarded as a reliable market barometer. When on rare occasions operations continued above 90 per cent for any extended period as it has for the past several months, the soothsayers felt confident in predicting an early drop in business. In other words, the accepted pattern called for a "bust" after an extended "boom" of more than normal duration. Is it any wonder then that prognosticators now are anticipating a lull?

Yet how can there be a slackening in steel output when consumers are pleading for increased allotments and when trade papers carry advertisements offering steel supplies at double established prices? So serious is the apparent shortage of raw materials that a Senate Committee studying problems of small chain" transactions in steel yielding fabulous profits for fortunate dealers. At the same time, recognized authorities in the business are warning against undue optimism and opposing expansion in producing facilities lest there be a sudden reversal. What is the real situation in this basic industry?

Why a Lull is Expected

A careful examination of the subject is important because steel represents such a broad cross-section of all business. Other manufacturing operations—in automobiles, in electrical equipment and in basic building for example—can scarcely avoid reflecting changes from current levels in steel mill activity. A clear understanding of the basis for anticipating a downturn is essential. Principal reasons may be summarized about like this:

(1) Production has been exceeding normal consumption for almost a year. Operations have been maintained almost continuously above 90 per cent of capacity since the December coal crisis. That means that the industry has produced at a rate in excess of 80 million tons of ingots. At the current rate, the industry appears headed for output this year of almost 85 million tons, or more than 25 per cent greater tonnage than ever previously consumed in a single peacetime year. It is doubtful whether users can continue to absorb such vast quantities indefinitely.

(2) Inventories are becoming unduly large, suggesting that the urge to accumulate supplies may begin to wane. This contention is supported by an examination of balance sheet figures of representative steel consumers. Supplies of raw materials on hand seldom have been larger in relation to sales. Since inventories usually are appraised at cost or market, whichever is lower, it may be assumed that valuations are no higher than current market prices and therefore are not unduly inflated dollarwise in relation to sales. The fact that raw materials are held in such large quantities indicates that pipelines have become filled.

(3) Production is slackening in some lines of appliances and demand for certain types of steel has shown signs of tapering. Delays in residential construction in many parts of the country—because of high costs or shortages of critical materials—have contributed to a reduction in sales of refrigerators, ranges and heating equipment. Hence, manufacturers have lowered their prospective steel requirements and, although cancellations have been comparatively negligible, shipments have been deferred to later dates. This trend is expected to permit steel makers to allocate larger tonnages of sheets and strips to motor car manufacturers in coming months.

(4) Historical precedent suggests that demand for steel may fade quickly. After the first World War, in 1919 and early 1920, consumers scrambled for steel at prices far in excess of those currently prevailing. European countries joined in the rush for supplies. Producers' order books were filled despite protests over high prices. Optimistic estimates of prospective demand for new houses and automobiles were not much different than since V-J Day. Suddenly the public stopped buying consumer goods in 1920, building halted and orders for steel dwindled to such an extent that mill operations went into a tailspin.

Production Far Above Post World War I

Justification for reviewing the previous post-war experience may be found in a comparison of production volume over a period of years. Assuming that output this year may approximate 85 million tons of ingots and that population of the country is approximately 140 million, it is apparent that the industry is producing at a rate in excess of 1,200 pounds per capita annually. This is high by any standard of the past. Filfred Sykes, President of Inland Steel, recently was quoted as saying that in the decade from 1911 to 1920 the industry's output averaged 622 pounds per capita annually. In the following decade of the 1920's the average was approximately 770 pounds and in the depression decade from 1931 to 1940 the average was about 564 pounds. In the twenty years then of good times and bad the annual average from 1921 to 1040 was 667 pounds per capita or only slightly larger than in the decade which included the first World War. Statistics indicate that the annual average per capita from 1941 to 1946 reached 877 pounds. This compared with a pre-war high of 978 pounds in 1929 and with the current record breaking volume in excess of 1,200 pounds per capita. These figures were cited by Mr. Sykes in support of his contention that the industry faces a substantial letdown over the next twelve to eighteen months.

Among business commentators anticipating recession in business, the high price of steel and other essential materials has been stressed as a possible cause of shrinking demand. The facts scarcely support the view that steel prices are high in relation to other products. The average published price of steel products is approximately 3c a pound according to trade paper compilations. This represents an increase of only about 16 per cent over the average price of ten years ago and it is not much higher than a quarter of a century ago when the industry was recovering from the slump that followed the first war boom. The advance in steel prices since the end of OPA regulations has been comparatively small in relation to sharp boosts in competitive metals. Increases ranging from 50 per cent to almost 100 per cent have been the rule for copper, lead, zinc and tin while in the case of steel the average rise has been only about 20 per cent.

Nevertheless, profits of large steel producers have increased remarkably in the face of rising costs and the impression has prevailed that prices could be reduced to lower cost of consumer goods and avoid a recession in business. Agitation for price reductions undoubtedly has made producers conscious of a possible decline in orders and a consequent reversal in production trends. From a psychological standpoint, therefore, the price factor may contribute to a normal lull in incoming orders.

Inventories Large But Steel Sheets Short

The possibility of reduced demand for certain types of steel is suggested by unusually large inventories. A spot check of March 31 balance sheets indicates that inventories of raw materials have been enlarged either in anticipation of higher prices of greater production volume. In numerous cases the ratio of inventory to sales was found to be substantially higher than before the war.

In this connection it is interesting to see the extent to which General Motors management increased inventories. Sales in the first quarter of almost $805 million were at the annual rate of $3.2 billion. Inventories on March 31 amounted to slightly less than $658 million, or a ratio of something more than 20 per cent of sales. For the *(Please turn to page 344)*

Pertinent Statistics on Steel Shares

	Net Per Common Share: 1941-44 Avge.	1945 Fiscal Year	1946 Fiscal Year	For 3 Months Ended Mar. 31, 1947	1946 Dividend	Recent Price	Dividend Yield	Investment Rating
Acme Steel	$2.24	$1.91	$4.54	$2.09	$3.30	$46	7.2%	BI
Allegheny Ludlum Steel	3.16	2.68	5.12	1.42	2.00	35	5.7	BI
American Rolling Mill	1.92	2.58(a)	5.36	1.76	1.25	28	4.5	BI
Bethlehem Steel	8.54	9.52	11.79	4.84	6.00	83	7.2	BI
Byers, A. M.	3.26	2.51	def.87	1.95 Mr6	Nil	15	......	C+I
Carpenter Steel	4.37	3.08	4.53	5.52 Mr9	2.50	45	5.6	BI
Colorado Fuel & Iron	1.75	1.73	def.60	2.87 Mr9	.60	14	4.3	B—I
Continental Steel	1.55	1.22	1.89	.78	.80	15	5.3	C+I
Crucible Steel	8.23	7.26	def2.37	1.12	Nil	26	......	B—I
Inland Steel	2.38	2.01	3.18	1.06	1.83⅓	35	5.2	BI
Interlake Iron	.73	def.41	.99	.49	.60	11	5.4	C+I
Jones & Laughlin Steel	5.52	2.91	3.79	2.41	2.00	31	6.5	BI
Keystone Steel & Wire	1.95	2.10	2.78	5.58 Mr9	2.85	41	6.9	BI
National Steel	5.84	5.04	9.17	3.28	3.25	79	4.1	BI
Republic Steel	2.44	1.36	2.53	1.96	1.00	25	4.0	BI
Sharon Steel	2.36	1.86	4.39	3.06	1.30	29	4.5	C+I
Superior Steel	2.21	1.24	3.50	.98	.60	16	3.7	C+I
U. S. Pipe & Foundry	2.67	2.03	1.20	......	1.60	38	4.3	B3
U. S. Steel	6.03	3.77	7.29	3.78	4.00	67	6.0	BI
Wheeling Steel	6.32	3.75	6.25	4.38	1.50	35	4.3	BI
Woodward Iron	3.09	.61	4.50	2.72	2.50	50	5.0	BI
Youngstown Sheet & Tube	5.84	4.12	8.51	4.38	3.00	60	5.0	BI

(a)—After extraordinary adjustments, net was $3.96. Mr9—For 9 months ended March 31, 1947. Mr6—For 6 months ended March 31, 1947.

Happening In Washington

By E. K. T.

STRICTER regulation of the radio broadcasting industry is in the offing but when it comes it will affect programming and other practices without cutting into the earnings. The radio industry, always sensitive to controls from Washington, will contest every point in the Communications Act revision drafted by Senator Wallace White. The fight will be unavailing. The White Bill has bi-partisan support in Congress, a favorable nod from the White House. The new rules may cut down available time for sale to advertisers, won't regulate rates. Congress believes competition developing through FM will take care of that.

WASHINGTON SEES:

That the truce between the White House and Congress has been broken is not a matter of great concern in Washington, where it always had been taken with a grain of salt, but that the split came not alone on domestic issues but also involved foreign policy added gravity.

It was too much to expect either the President or the republican leadership to pass up the politically rich tax and labor legislation without injecting some degree of partisanship. It would be hard to find international implications in either. But Senator Taft did. The Ohioan scrambled President Truman's world recovery and price reduction policies and produced—acrimonious debate. Yet, it is probable that few would have taken note of these spceific remarks by Senator Taft in the torrent of words pouring out of Washington had not the President spotlighted them with his formal, and quotable, reply which used a press conference as its forum.

At no time have the mutual promises of cooperation between the White House and Capitol Hill been more than promises—except as to foreign policy. Rehabilitation of Europe was considered as essential as the war itself. Now that foreign aid and domestic fiscal and union management reform have been made a part of the same brew, the 1948 political campaign can be said to be officially on with no holds barred.

DEMOCRATS who are cautiously claiming the 1948 Presidential election for their party are defiantly contending they will win back control of the senate. The statistics lend some support to their analyses. Outside the Solid South, the democrats will have only four Senate seats at risk while the republicans will have 18 coming up. If the democrats win four positions while holding their present strength, they will have numerical control. A change of administration after long tenure by either party usually comes in a landslide—witness the Harding and the Roosevelt victories. But there's none in sight for 1948 for either party; the Senate contests will be fought "on their own."

STATE DEPARTMENT has made a listing of countries receiving economic of technical assistance from the United States and the roll carries names of 59 nations and adds the money spent or committed to the staggering total of 20 billion dollars. The items which come most readily to mind—UNRRA and the World Bank actually account for less than one-half of the total. The end isn't in sight. Secretary Marshall has just asked all European countries to tally up their future needs for economic stabilization.

CONGRESS, through the ways and means committee, is beginning studies which should result in revision of tax laws that hamstring business. One problem high on the list for examination is double taxation resulting from income taxes on dividends of corporations that already pay a corporate income tax. Various federal excise taxes will be reviewed, some are certain to be reduced. The entire structure of th tax bill will be gone over in a sifting of protests which have been lodged. But business taxes are marked for first study.

As We Go To Press

With the delegates of the southern tier of states safely tucked under his belt, Senator Robert A. Taft is moving into the farm area and his approach is somewhat unusual. Instead of working through the chairman of the Senate agriculture committee, he is short-circuiting venerable Senator Arthur Capper and putting it squarely up to Senator George D. Aiken of Vermont to develop party farm policy.

The tactic is a daring one. Capper is a long-time friend of agriculture with a powerful voice which sounds his many farm papers. Aiken is not friendly to Taft's Presidential aspirations but is "on the spot." The Senate committee has been dormant while the House agriculture committee, under the chairmanship of Rep. Clifford Hope has made real headway.

There is method in Taft's approach, however. By selecting an easterner as his spokesman on the committee (Aiken is under virtual obligation to aid his party leader in the Senate, and will accept), the Ohioan will be in a position to develop a union between farm and non-farm benefits from agriculture -- a broadened surplus food distribution system for example which would aid both the producer and the consumers in the industrial sections of the country.

Taft realizes he must look elsewhere than the east for convention strength. Gov. Thomas E. Dewey will blank him out there, with former Gov. Harold E. Stassen taking what does not fall to the New York Governor. If Taft can add the farm belt to his southern strength he will be a closer contender than the analysts now regard him to be.

Talk of reviving the Blue Eagle in some form simply will not down. Public statements pooh-poohing the idea don't square with behind the scenes conversations. No exact duplication of the old NIRA is contemplated; the Supreme Court took care of that. But some feel much of the original outline can be followed within the framework of the court's decision in the "sick chicken" case.

Administration planners are reported to be looking into a system of industry-wide price agreements to be carried out under some form of congressionally-indorsed immunity. They say machinery should be available for use if an emergency arises and that their interest lies there -- not in a program for immediate activation. Congress isn't friendly to suspension of antitrust laws during peacetime despite its willingness to go along with the idea in time of war.

Meanwhile, there is considerable reflection here on the current price-lowering campaign. Judging by the Labor Department index of commodity prices -- and it is a highly sensitive index -- President Truman's first speech on the subject came just at about the price peak. The Cabinet and other speeches followed. On the basis of this index, prices are lower than they were at the first of the year.

There are some whisperings that the President should speak to the nation again -- this time from the other side of the fence. It may happen. Failure of the Newburyport Plan and others less-publicized has caused some Presidential advisers to suggest the country is at the nervous point, that waiting all along the line from pro-

ducer to ultimate consumer for prices to break could be dangerous.

The grain market is coming in for close attention on the part of the Department of Agriculture and government economists. An unusually rough winter in Canada, plus price blackjacking by Argentina have placed pressure on several European countries. Bread rations are being cut and there's no prospect of stepping up exports of wheat or flour from this country.

Lend lease, armed forces needs, UNRRA and the world shortages of food have added up to expanded production and prosperity in the food industry -- some estimates place the latter at a seven-year high. Basically, this has been brought about by forces which just cannot be expected to continue and the Washington experts say the period of adjustment for most food commodities is here.

Failure of the national housing program to make any real headway has sidetracked a pet congressional project. The Congressmen had planned to solve their own housing problem by construction (at government expense, of course) of a million dollar apartment house, to be available only to the Senators and Representatives and their families. They don't dare do it now, and it has gone into a committee pigeonhole.

One of the facts which made the lawmakers backtrack was the report on a Veterans Administration survey which finds that veterans and their families, excluding parents or dependents living outside veterans' households, now constitute 32 per cent of t total population, and is expected to reach a peak of 43 per cent in 1952. If the Congressmen were to solve their own housing difficulty before that of the war veterans, pointed questions might be asked by a huge voting segment.

The organized trucking industry is preparing to fight any effort to "integrate the ownership of America's carriers" and will wage its campaign through American Trucking Association offices here. Mergers and consolidations, the argument will run, will invite the big to swallow the small.

There's vast difference between "integration of service," says ATA, which cites the former as contrary to the public interest and the latter desirable and necessary in the public interest. There's little likelihood of action at the current session of Congress.

The Joint Economic Committee, composed of members from both houses of Congress under the chairmanship of Senator Taft has completed a survey of business opinion and concludes depression is not near at hand. Businessmen and industrialists who were polled professed to see some likelihood of a mild recession toward the close of this year -- but almost unanimously did not see their own businesses affected.

These findings may make it somewhat embarrassing for Senator Taft who has led the fight for tax reduction on the theory that cuts in payments to federal treasury are necessary to avert a depression. It gives President Truman additional ammunition in his running fight with the Ohio Senator over the question of prices. To pour mor purchasing power into an already healthy seller's market, the White House is certain to say, is to bring on inflation, delay the day of price adjustment.

The Mc Carran Bill to force decentralization of eastern industry for the benefit of the mid-west and far-western states is tucked away in a pigeonhole, but in its place has come the Engle Bill which aims to benefit the less populous areas by requiring the Treasury to make payments to states in lieu of taxes on federally-owned lands.

Mid-Year Reappraisals and Forecasts of...

PUBLIC UTILITIES

By JAMES M. GORDON

The electric light and power industry during the year 1946 benefitted substantially by the revision of the Federal tax system which eliminated excess profits taxes and reduced the normal and surtax rate for corporations to 38%. As a result, net income of all electric companies increased to $645,000,000 compared with about $534,000,000 in 1945.

In 1947 the preliminary monthly figures for the industry reported in bulletins of the Federal Power Commission show net income running slightly below last year. However, since last year's early returns were larger than for later months, the utilities may be able to keep abreast of the 1946 monthly figures during the balance of this year if costs do not advance much beyond present levels. Output of electricity is currently running about 15-20% over last year.

At present the electric utilities are walking a financial tightrope, balancing their increased revenues against higher fuel and labor costs. In the first quarter of 1947, fuel costs ran nearly 50% over last year, and labor costs 20%. The big rise in fuel reflects the higher cost of coal due to wage jumps last year, higher prices for fuel oil, increased railroad rates for transporting fuels, more use of inefficient "stand-by" steam plants, and lower use of hydroelectric facilities (due to lower water).

Emergency Plants Used

With electric operations now exceeding even the wartime peak, the utilities are forced to press into service inefficient steam plants which would normally be used only for emergency loads. Thus the extra load of industrial power now being produced may really penalize rather than benefit some utilities, since it is sold at very low rates and costs a good deal to produce. For this reason, utilities would probably not be hurt by an industrial recession, since they may be losing money on some of their present output—so long as such a recession was not deep enough to reduce residential consumption, which is more profitable than the industrial load.

Present high operating costs will be reduced when the utilities are able to obtain the new generating equipment they have "on order" for installation over the next four years. During that period, they hope to increase generating capacity by about 11,000,000 Kw (about 27%) by spending some $4,000,000,000. This will eventually restore a more normal margin of capacity over peak load. Had it not been

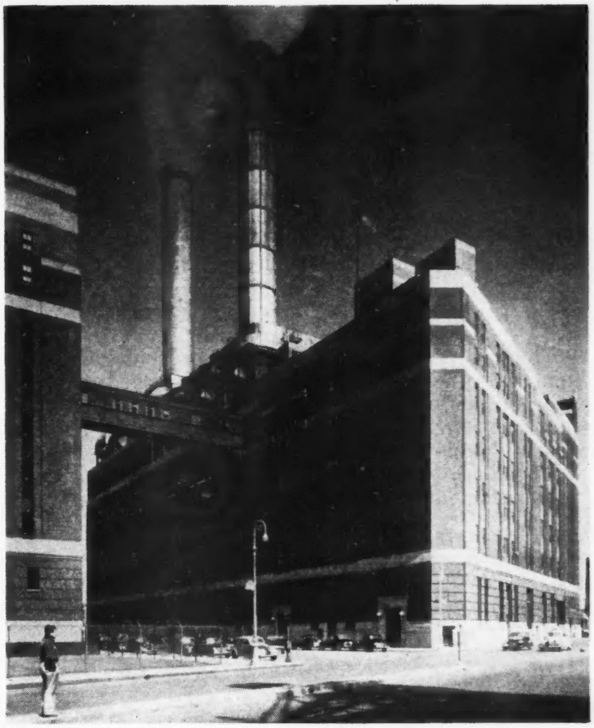
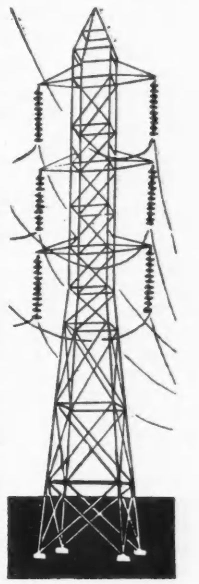


Photo by Consolidated Edison

East River generating station of Consolidated Edison of New York. The company is expected to apply for higher gas rates.

for such a margin in 1941 (together with the big government power projects, TVA and Bonneville), we would never have been able to produce the immense amounts of aluminum, magnesium, and other products needed for wartime production of airplanes and munitions.

This expansion program, however, raises some important financial problems. The utilities can still borrow money cheaply for new construction, but it is difficult to issue common stock because of the decline in the market, and the fact that most utility stocks issued during 1946-47 show substantial losses to the investors who bought them. In order to market new utility equities, it now appears necessary to offer dividend yields ranging from 6½ to 8%—the amount depending on the size and calibre of the issue.



The Securities and Exchange Commission some time ago suggested that the electric utilities' capital structure might conservatively average 50% debt, 25% preferred stock and 25% common allowed some exceptions to this stock equity. The Commission has allowed some exceptions to this formula, and on the other hand many higher grade companies have a lower debt ratio than 50% and a higher common stock equity than 25%. Well established companies have a "margin of safety" and hence will not need to adhere strictly to this formula in raising their new funds. Many of them are borrowing money

from the banks at very low rates of interest (approximately 1½-3%) on a short-term or serial basis. Others are issuing bonds or preferred stock. Some, such as Pacific Gas and Electric and Consolidated Natural Gas, are issuing rights to stockholders to buy additional common stock.

The cost of equity financing is currently running from two to two and one-half times the cost of senior financing. Hence some utilities may be tempted to avoid equity financing, though in the long run this might prove a safer method.

New Facilities Increase Efficiency

There is a serious offset to the present low carrying cost of construction (when financed through debt or preferred stock). This is the high cost of construction and equipment, which is now running about double that of the pre-war period. On the other hand, the new equipment should prove much more efficient than much of the equipment now being used—it will produce more Kwh per unit of fuel and man-hour labor.

Thus in considering the future earnings result of the present tremendous expansion program, it is necessary to balance the favorable factors (low money rates and efficiency of new equipment) against the adverse factors (high construction costs and current difficulties with equity financing). In 1946, about 46% of the electric utility income dollar was expended for operating costs, 18% went to the government in taxes, and 36% was available for depreciation, fixed charges, dividends and surplus (cost of capital). Thus it would appear that operating savings may tend to outweigh higher capital costs. But the result will vary much in individual cases.

To a considerable extent the utilities are safeguarded in making additional investment by the regulatory policies which permit them to earn a "fair return" on "fair investment." Since the cost of new facilities can be registered as "original cost"

1946 Key Statistics and Ratios on . . .

Electric-Gas Operating Companies

	Cincinnati Gas & Elec.	Cleveland Electric Ill.	Columbia Gas & Elec.	Comm. Edison	Cons. Edison	Detroit Edison
PLANT VALUE (MILLIONS) GROSS	$130	$180	$340	$774	$1,186	$365
Depreciation Reserve	40	56	136	211	183	91
Intangibles (See note i)	......	......	......	......	......	7
Net Plant Account	90	124	204	563	1,003	267
CAPITAL RATIOS—RATIO OF SENIOR SECURITIES TO NET PLANT	51.3%	40.4%	46.8%	50.0%	41.5%	43.0%
Senior securities to total capitalization	51.3	35.5	43.8	45.0	49.5	47.5
Preferred stock to total capitalization	30.0	17.6	......	......	23.6,	......
Common stock to total capitalization	18.7	46.9	56.2	55.0	26.9	52.5
ANALYSIS OF REVENUES—ELECTRICITY %	67.5	96.0	......	90.0	79.5	96.5
Gas %	30.3	......	92.0	9.8	15.0	.9
Transit %	......	......	......	......	......	......
Miscellaneous %	2.2	4.0	8.0	.2	5.5	2.6
INCOME ACCOUNT—GROSS REVENUES (MILLIONS)	$38	$45	$95	$196	$314	$91
Operating expenses (incuding pur. power or gas)	22	21	50	88	130	47
Maintenance	2	3	4	12	29	7
Depreciation	3	5	8	20	34	8
Taxes—Federal Income	2	4	8	18	21	5
Taxes—Other	3	4	5	23	47	9
Net Operating Income (after all taxes)	6	8	21	35	53	15
Fixed charges, etc. (less miscellaneous income)	1	1	6	9	17	4
Net income	5	7	15	26	36	11
EXPENSE RATIOS						
Ratio depreciation to gross revenues	7.9%	11.1%	8.4%	10.2%	10.8%	8.8%
Maintenance to gross revenues	5.3	6.7	4.2	6.1	9.2	7.7
Combined ratios	13.2	17.8	12.6	16.3	20.0	16.5
Operating ratio*	84.2	82.5	79.0	82.2	83.0	83.2
EARNINGS RATIOS						
Ratio net operating income to net plant account	6.7	6.5	10.3	6.2	5.3	5.6
Number times fixed charges earned after taxes	6.0	8.0	3.5	3.9	3.1	3.7
Number times charges and preferred dividends earned after taxes	2.9	3.7	......	——	1.9	......
Earned per share on common stock in 1946	$1.79	$2.55	$1.20	$1.91	$2.20	$1.67
SOURCE OF ELECTRIC POWER—PERCENT PURCHASED	......	......	......	——	——	.5%
Percent hydro	......	......	......	——	——	.5
Percent steam	......	......	......	100%	100%	99.0
SALES OF ELECTRIC POWER ($)—% OF TOTAL						
Residential	——	33.3%	......	31.6	34.6	35.6
Commercial	......	11.9	......	} 53.0	} 55.0	27.2
Industrial	......	45.2	......			32.6
Other	......	9.6	......	15.4	10.4	4.6
RESIDENTIAL ELECTRIC DATA						
Average residential revenue for KWH	......	2.98c	......	3.35c	4.75c	2.80c
COMMON STOCK—Price about	$27	$39	$10	$29	$25	$24
Price-Earnings Ratio	15.1	15.3	8.3	15.2	11.4	14.3

*—Including taxes.

i—Figures are frequently incomplete and effort has been made to find the approximate adjustment needed to reduce to original cost.

(the present standard of valuation favored by the federal authorities), the utilities should theoretically be permitted to earn 6% on this amount, the average rate favored by a majority of the commissions.

As a practical matter, the companies might encounter difficulty in raising rates, particularly residential, if they should find this necessary to average 6% on total investment. A number of Bell Telephone subsidiaries have recently asked for rate increases, with general success; but some of the manufactured gas companies are facing difficulties in obtaining prompt rate adjustments to meet burdensome fuel costs.

The electric utilities should, however, be able to convince the commissions that further rate-cutting should be abandoned until the trend of rising costs has leveled off. The average cost of residential electricity per KWH has been declining every year for three decades, with the exception of two years during the first World War and one or two later years when the rate held steady or increased slightly. Much of this decline was due to voluntary cuts by the utilities to promote new business, particularly as electric household gadgets were introduced on a large scale. But many other cuts have been forced by the regulatory commissions, partially because of pressure exerted during the New Deal regime.

Prospect for Higher Rates

Assuming that residential rates could remain around present levels, the utilities' over-all rate average might actually increase during 1947, since many utilities are now putting into effect higher industrial rates based on so-called "fuel clauses" which permit charging higher rates to offset higher fuel costs. In some cases these clauses also apply to commercial and residential business although the latter is somewhat rare. Consolidated Edison is one of the few important companies which enjoy a fuel clause in their residential rate structure. Some of the utilities may also benefit by increased rates for

. . . *Important Utility Companies and Systems*

		Electric-Gas Holding Companies								
Pacific Gas & Elec.	Pacific Lighting	American Gas & Elec.	American Power & Lt.	Comm. & Southern	Electric Power & Lt.	Engineers Public Serv.	General Public Util.	Niagara Hudson Power	North American Co.	Public Service of N. J.
$879	$241	$493	$792	$1,113	$539	$256	$425	$537	$699	$623
232	96	111	110	171	111	42	90	111	214	148
			129	130	13	24	4	2	6	
647	145	382	553	812	415	190	331	424	479	475
51.0%	30.3%	54.6%	50.6%	53.2%	47.0%	52.4%	55.0%	49.0%	56.6%	46.1%
52.1	47.4	62.2	48.3	46.3	51.0	52.5	53.7	60.0	‡57.4	42.1
22.9	20.2	24.6	45.0	34.2	49.0	43.1	15.3	36.8	21.2	36.3
25.0	33.4	13.2	7.7	19.5		4.4	31.0	3.2	22.4	21.6
70.0		9.9		30.0	35.7		83.3	80.0	76.4	53.6
29.0	80.0			64.0	43.4		13.8	12.8	3.4	20.7
	19.0				10.7				9.5	25.7
1.0	1.0	1.0		6.0	10.2		2.9	7.2	10.7	
$168	$68	$116	$141	$229	$128	$61	$114	$118	$179	$194
99	35	42	50	85	51	27	54	43	81	84
7		9	8	16	8	4	8	8	14	18
27	8	14	11	22	17	5	11	13	18	14
18	8	13	19	28	14	6	6	10	16	17
18	6	11	11	17	11	5	12	18	16	22
35	11	29	42	56	27	14	23	26	34	39
9.5	1	7	13	24	10	6	11	10	13	15
25.5	10	22	29	32	17	8	12	16	21	24
16.0%	11.8%	12.1%	7.8%	9.5%	13.4%	8.2%	9.7%	9.6%	9.9%	7.2%
4.2		7.8	5.7	7.0	6.3	6.5	7.0	6.8	7.8	9.3
20.2		19.9	13.5	16.5	19.7	14.7	16.7	16.4	17.7	16.6
79.2	83.8	75.8	70.9	42.6	79.0	77.0	79.6	78.0	80.9	80.0
5.4	7.6	7.5	5.2	6.7	6.5	7.4	6.9	6.1	7.3	8.2
3.5	8.1	4.4	3.8	4.1	3.2	4.0	2.9	3.7	2.7	2.6
2.0	6.4	3.0	2.0	2.5	2.7	2.5	2.1	2.6	2.7	1.6
$2.72	$4.84	$3.79	$4.18	.68c	$3.25	$3.25	$2.28	$1.42	$2.55	$2.54
23.9%		2.0%					21.6%	18.0%		
56.0		8.0								
20.1		90.0								
28.9		30.1	33.6	33.3	28.3%		25.4%	91.7%		
25.8		14.4	28.0	22.6	29.4		15.3	8.3		
26.0		43.7	27.0	37.0	26.1		46.3	—		
19.3		11.8	11.4	7.1	16.2		13.0	—		
2.7c		3.30c		2.55c	4.0c		7.7c	2.8c		
$36	$56	$39	$10	$2.50	$14	$28	$13	$8	$24	$24
13.3	11.5	10.3	2.4	3.7	23.2	11.6	17.5	17.8	10.6	10.6

‡—Preferred of subsidiaries.

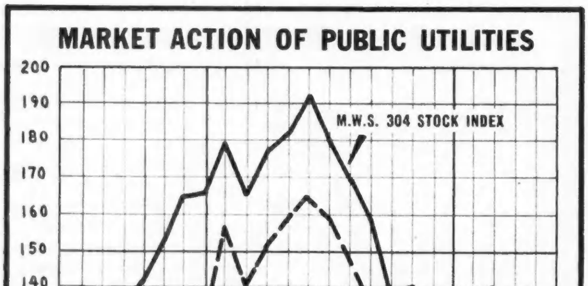
manufactured gas. Consolidated Edison expects to apply for such an increase, and Brooklyn Union Gas has already applied.

If the average electric rate can be stabilized or moderately increased, growing residential business may offset any further rise in operating costs together with increased fixed charges resulting from the construction programs. However, where such programs are financed largely from stock sales or issuance of rights and attractive convertible securities, the increased number of common shares may dilute share earnings somewhat.

Unless we are to have a continued inflationary spiral, the outlook for the electric utilities should be one of increased rapid growth and stable share earnings. Considering the current attractive yields now obtainable, (about 5 to 8%) utility stocks seem to merit the attention of equity investors.

Romance For The Future

There is also a special growth factor on the horizon which adds a touch of romance to the future outlook. At the recent Edison Electric Institute convention, several engineers reported that adoption of the heat-pump for residential heating and cooling might get under way in the next year or so. About two thousand units will be produced this year, according to Vice-President Smith of the Muncie Sear Works, with large-scale production beginning sometime in 1948. The device has been widely experimented with. While it may not prove practicable for use under all conditions, Mr. Smith predicts that average residential consumption could be increased from 1,200 KWH per annum to 10,000 KWH through substitution of the device for present central house-heating methods, as well as for air-cooling systems. With residential revenue comprising over one-third of total revenue, and probably a larger percentage of net income, widespread use of the heat-pump would obviously have a stimulating effect on utility earnings— although residential KWH rates for this volume business would probably average considerably below the recent figure of about 3.2c per KWH.



What about atomic power? The utilities do not seem worried about future competition from Government-owned uranium or plutonium "piles." Such energy may prove useful in certain areas where fuel is scarce or high-priced, and in the event of another world war, but it will not displace steam power and hydro power, at any rate for some decades. In any event our present generating systems would remain necessary to convert atom-generated heat into electricity, and distributing systems would doubtless be enlarged.

Natural Gas Use Growing

The natural gas companies in the last year or so have entered a period of rapid expansion. They have a big advantage over the manufactured gas companies, since they are not much effected by rising costs. The use of gas for house-heating, for varied industrial production; and as boiler fuel by the utilities and others, has been growing very rapidly. During the war this growth was checked by ignorance regarding our big reserves—now estimated by the American Gas Association at 160 trillion cubic feet compared with an expert's pre-war estimate of 85 trillion. Also steel was not available for pipelines. but now the "Big Inch" pipelines are being converted from oil to gas and other big lines are being constructed. Northern Utility companies have learned the trick of obtaining large extra supplies of gas from the south and midwest by pipeline during summer months, and storing this in abandoned natural gas wells where it can be drawn out during winter months. There is considerable talk of getting natural gas into Philadelphia, New York City and New Jersey areas. As a result of all this activity, natural gas stocks as a group have been doing better than electric stocks over the past year or two.

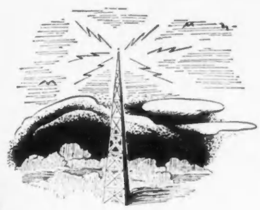
Outside of the electric and natural gas stocks, the outlook seems rather drab for other segments of the utility industry. Some of the manufactured gas companies such as Brooklyn Union Gas are encountering heavier expense burdens and are having difficulties in obtaining rate increases.

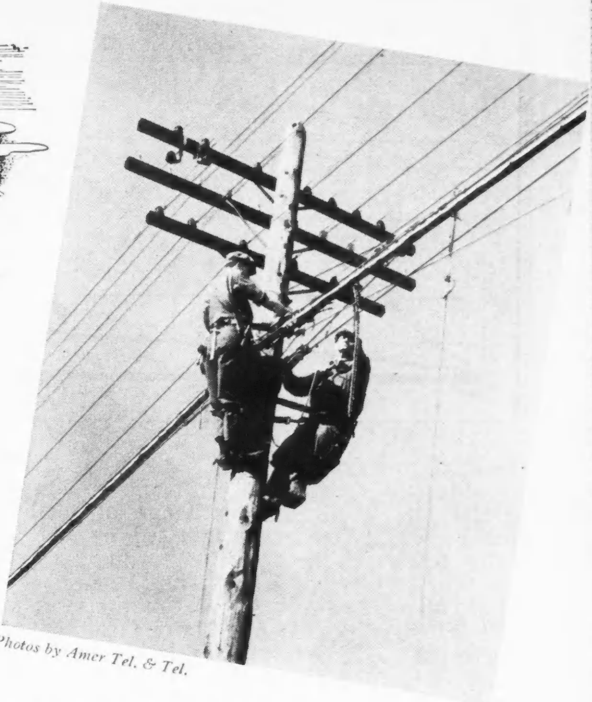
Holders of transit and manufactured gas stocks might well consider the possible advantages of switching into electric or natural gas stocks, particularly where high yields are obtainable or good grade stocks currently depressed. Among pending new issues which offer above-average yields due to "lack of seasoning" may be mentioned Gulf States Utilities and Virginia Electric Power, both being sold or distributed by Engineers Public Service; there are also a number of others which were sold or distributed to the public over the last year or so and which are still available to yield more than seasoned issues.

Holding Company Issues

What about the electric-gas holding company securities? There are very few speculative bonds outstanding any more. Portland Electric Power, Central States Electric bonds, and in the lower-priced field Central Public Utility bonds, are almost the only issues are selling currently far below "call price plus of preferred stocks with arrears, about a third of which pay the regular dividend rate. Most of these issues are selling currently far below "call price plus arrears" which represents *(Please turn to page 348)*

Operators handling out-of-town calls. Long distance dialing is expected soon.





Photos by Amer Tel. & Tel.

Telephone linemen who build and maintain the essential voiceways of America

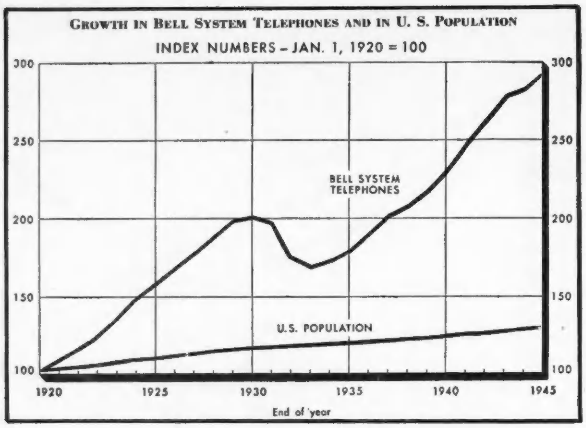
New Profit Potentials for COMMUNICATION COMPANIES

By WARREN BEECHER

In the amazing picture of America at work and play, establishing world records for industrial production and distribution, high living standards and opportunities for recreation—mastery of speed is largely accountable for the achievement accomplished. The miracles of mass output, rapid transportation, fast turnover of goods and elimination of space have brought profits to the investor and comforts to every individual in the land, not to mention glory to our scientists and technicians. But had it not been for corresponding growth in the development of communication services, only a tithe of our progress would have been possible. Before action on any front could start, an exchange of ideas had to take place, a process that required continued repetition during every business or personal program, until its final consummation. What the Nation now is, may be attributed largely to the realization of domestic and worldwide thought transference by the spoken or written word, and at an increasingly rapid tempo.

Those of our readers who accept the phenomena of long distance telephones, telegraphy, radio and television as common place facts, and assume that the zenith of technical progress in these fields has about been reached, will be surprised at what practical improvements are certain to evolve, not in the dim future but within one, two or three years! Wartime research has stimulated the strides of scientists to a point where new discoveries are well past the testing stage and nearly ready for practical application. Quite aside from enhancing public convenience, the various communications companies have warrantable hopes, of course, that all those improvements will tend to widen their profit margins or at least help to offset mounting costs of every description, not only for the manufacture of the equipment but more importantly for the service companies themselves. As in any other business, the operators of communications rely heavily upon large volume and speedy turnover as the determinant of earnings. The only difference in this special field is that in considering unit costs, split seconds rather than annual output are a major factor in all estimates. Speed raised to the Nth power, far beyond the human mental limits, and operating efficiency produced by combining thousands of mechanical parts, some requiring measurements up to a millionth of an inch, are every day considerations for the specialists in this interesting industry. How these highly trained technicians have teamed up with their administrative personnel to lick the problem of narrowing profit margins is interesting to consider.

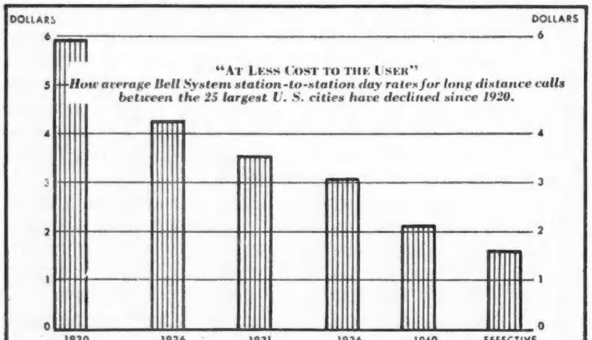
To an unusual extent, the different components in the communications industry cooperate with one another, and for that matter with the Government, in the realm of research and in operational overlapping as well. While the race for patents is always on, reasonable royalty agreements are freely exchanged as a rule and to the benefit of all parties involved. The element of competition, too though highly ex-



pressive in some fields and verging upon monopoly in others, is eased by intercommunication arrangements and widespread exchange of facilities. In other words, business originated by one concern often flows into the operations of another, whether one way or two way traffic. Thus, regardless of possible competitive factors, most of the large units in the industry are customers of one another and on a correspondingly cooperative footing, as we shall see later on in our discussion. The Federal Communications Commission, as well as most of the State Agencies, has been rather prompt in granting rate boosts where essential to keeping profits on a desirable keel. To grasp how all of these factors and those discussed earlier in our article may prove constructive to the communications industry, we will scan the picture unfolding for a few of the leading concerns individually, starting with American Telephone & Telegraph Company.

American Telephone & Telegraph Company

One of the most reliable indices of economic conditions is the over-all activity of this giant concern. Under current conditions more than 150 million times every day Americans reach for a phone to converse with someone else in the world, for either business or social reasons. With the advent of bad times when numerous enterprises fold up or curtail expenses and personal incomes are reduced, telephone revenues naturally tend to decline, but to give up a telephone set is about the last budgetary adjustment that anyone is willing to make. For this reason telephone traffic is almost the first to reflect



signs of a coming recovery period, especially when considered in connection with the demand for new installations. The relative operating stability thus gained, plus the popularity and first hand knowledge of the service rendered accounts in large measure for the more than 700,000 confident security holders in A.T.&T. With the national income now at peak peacetime levels, and fairly low-cost long distance conversations now possible between points all over the world, the demand for new phone sets shows no signs of abating compared with the situation more than a year ago. Though some 3.2 million new sets were provided for users in 1946, unfilled orders still are near the 2 million mark. Unless history fails to repeat itself, this hardly heralds the approach of a serious depression.

Despite operating revenues of over $2 billion in 1946, a gain of 8.4% over 1945, expenses other than taxes rose by 24.9%, chiefly due to heavier payrolls and additions to personnel. Excluding tax refunds, earnings on the company's $6 billion capital investment were at the rate of only 5.7%. To attract new capital for a $2 billion expansion program, without reversing long-followed policies to provide better quality service at consistently lower rates, the time is at hand when greater operating efficiency must be called into play to offset the rising trend in operating expenses. It is here that the "split seconds" experts are girding themselves to meet the problems now challenging the management, and while their expectations cannot yet be resolved to a dollar and cents basis, their plans to promote increased operating efficiency hold obvious promise. In general, the task ahead is not merely to install more new phones in a single year than the total used in Great Britain, as happened in 1946, but to handle the expanding traffic more speedily and with least duplication of costly equipment.

New Projects Under Way

Perhaps as important as any of the projects now underway by A.T.&T. is installation of a coast-to-coast network of coaxial cable that will permit transmission of hundreds of telephone conversations simultaneously, besides providing channels for television programs. By grouping eight specially constructed small cables in a leaden conduit and skillfully controlling the input of electric current, more than 2000 people can talk with clarity. This durable cable is buried in the ground by specially designed equipment, where bad weather cannot injure it, and as intricate devices can automatically switch any call into the channel, the benefits are clear. For several years past, such a line has been in successful operation, as a result of which thousands of miles are now being laid or planned to connect leading centers throughout the country. In time these cables will largely supplant a great number of the main telephone arteries now in use, with substantial saving of maintenance and installation outlays. 4000 miles of the coaxial cables are now in operation and by the end of 1948, 9000 miles of them may be in use. Aside from availability for telephone conversation, by the addition of special equipment the coaxials should boost revenues through chanelling of television programs, the development of which industry is getting strongly under way.

Speaking of television, the Bell System will be able to carry their programs additionally through the use of its new micro wave radio relay facilities.

Statistical Data on Communication Companies

	Net Per Common Share 1938-41 Average	1942-45 Average	1945 Year	1946 Year	1947 Interim	1946 Dividend	Recent Price	Price-Earnings Ratio	Dividend Yield
American Telephone & Telegraph	$10.36	$8.95	$8.78	$10.12	$10.09 Fe12	$9.00	$162	15.9	5.5%
General Telephone	2.32	2.18	2.26	3.08	.83 Mr3	1.60	30	9.8	5.3
International Telephone & Telegraph	.38	.89	1.27	def 1.57	....	Nil	11	....	....
Radio Corporation of America	.39	.50	.59	.56	.28 Mr3	.20	8	14.3	2.5
Stromberg Carlson	.56	2.45	2.51	2.57	....	.75	13	5.1	5.8
Western Union "A"	....	4.19	3.64	def 9.01	1.00 Mr3	Nil	21	....	....
Weston Electric Instrument	3.23	3.10	3.02	7.10	1.93 Mr3	2.00	37	5.2	5.4

Mr3—For 3 months ended March 31.
Fe12—For 12 months ended February 28.

Between New York and Boston a series of hilltop towers spaced at intervals of about 50 miles will be in operation soon and a similar line is planned to reach Chicago. The intervening stations pick up waves from an electric air beam through a current with weak wattage, boost it and pass it along. For multiple transmission of telephone messages, too, this relay system offers great promise, for the high frequencies employed arouse little interference from static. Once installed, the entire system is entirely automatic in operation and through devices which can use slightly varying wave lengths can convey a large number of twoway conversations. As time goes on, the Bell System will undoubtedly expand these high frequency lines on a large scale.

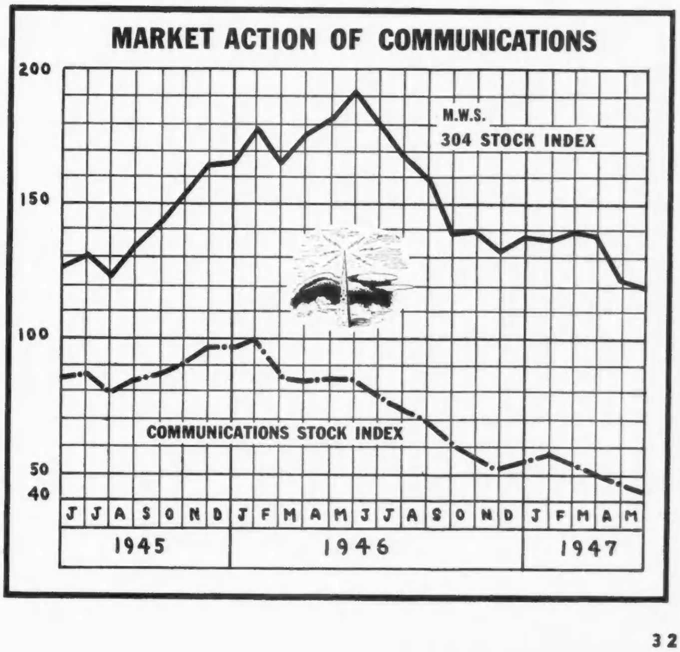
Long Distance Dialing

As for automatic dialing, now used on nearly 60% of all Bell phones, this improvement has proven so effective that it is only a question of time and supplies before the change over from former methods becomes practically complete. Better yet, engineers of the Bell Laboratories and Western Electric Co. have developed a cross bar switch that assures the rapid advent of long distance dialing. This significant achievement will greatly accelerate the speed with which long distance calls can be put through, for at the twist of the wrist a phone user anywhere will be connected with the most remote phone at the other end. As Stromberg Carlson Company, too, has secured rights for a Swedish device of somewhat similar efficiency, the practice of long distance dialing by independent telephone lines, also, may be hastened. A.T.&T. of course has interconnecting arrangements with most of the independents everywhere.

During the medium term the Bell System should find in Science the unfailing ally it expects to shave operating costs. Additionally, when revenues from the millions of new phones begin to pour in, justification for the huge equipment outlays involved should become more and more apparent. The utilization and multiplication of various means of oral communication, such as ship to shore service, automobile phones, aeronautical communications, television via cable and (in reverse) the present practice of relaying by radio all the trans-Atlantic telephone traffic that originates by wire and the greatly expanding popularity of teletyping, open up possibilities for greater efficiency all along the way. All of which tends to bolster hopes for satisfactory net earnings.

Western Union Telegraph Company

What the Bell System does for would be talkers, Western Union accomplishes for users of the written messages by wire. In effect this old concern has experienced long term expansion in its special traffic comparable to that of A.T.&T. and also is embarking upon a large scale campaign to enhance its profit potentials. Even before the outbreak of war, Western Union had started to accumulate sizable funds for modernization and readjustment of its operations, piling up cash resources to the extent of more than $69 million by about VJ Day. In 1946, a Government Fact Finding Board ordered retroactive wage payments amounting to some $31 million, while two consecutive boosts in wages increased operating costs for the year by another $23.6 million. Hence in contrast to net earnings of $20.2 million in 1945, final net for 1946 was in the red to the tune of $11 million and cash resources (including Government securities) shrank to about $46 million. But after the FCC allowed a moderate increase in rates, operations returned to a more profitable basis. None the less, this company must achieve increased operating efficiency to restore earnings to a rational level, and to do this it is determined to streamline its operations and coordinate them (*Please turn to page* 349)



RUSSIA'S Changing Relation ★ to ★ Satellite Countries

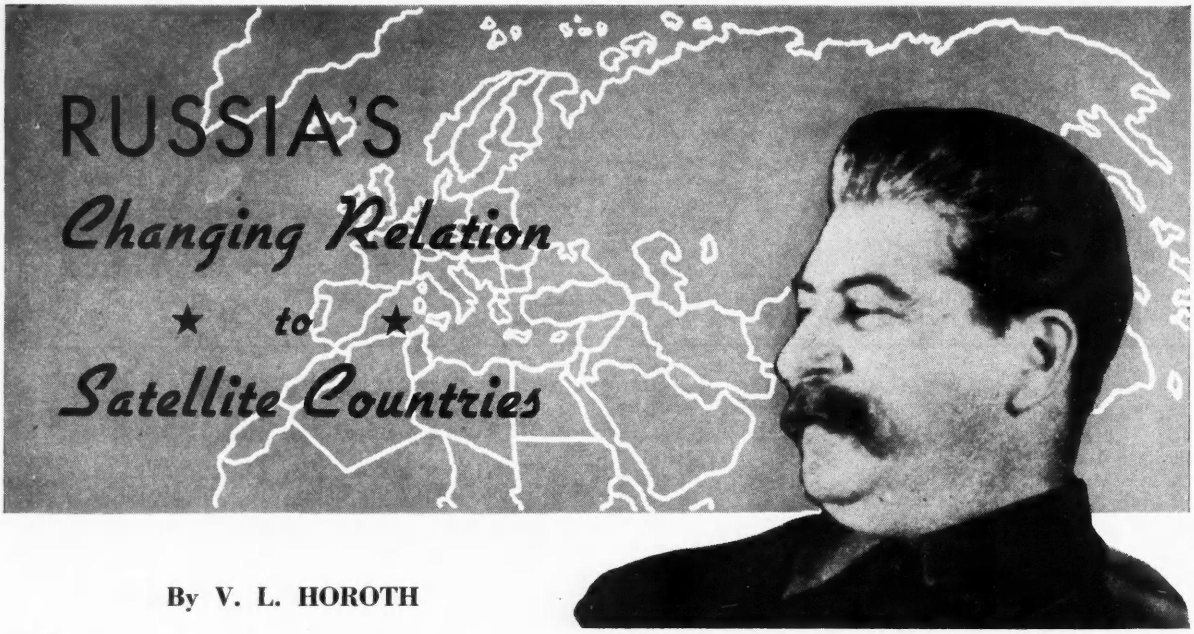


Photo by Int'l News

By V. L. HOROTH

The developments of the past three or four weeks have widened the gulf that has come to separate the democratic countries of Western and Northern Europe from the countries of Central and Eastern Europe which have found themselves—whether their populations like it or not—in the Russian sphere of influence. The chance that Europe would eventually organize herself into a loose political and economic federation seemed good a month ago. This chance is now definitely less. It may prove difficult for European nations even to discuss a plan for mutual aid. Such a plan was declared by General Marshall to be a prerequisite for American help to Europe as a whole. Czechoslovakia and Finland are still striving to straddle the widening gap, and the fate of Austria has not yet been decided.

With the exception of Spain and Portugal, the countries of Western and Northern Europe have now governments based on moderate center and right-wing parties. The communists are being successfully isolated. Though on the defensive, they, however, still remain dangerous, particularly in France and Italy where the political tension and disturbing strike outbreaks may last for some time.

In Hungary, on the other hand, the cause of democracy has suffered a setback. To forestall the possibility that the freely elected, pro-Western Government might, at an opportune moment, take itself out of the Russian political orbit by ousting the communist minority, the Hungarian reds, backed by the Russian military authorities, staged a coup. Hungary thus becomes the sixth Eastern European country—after Albania, Rumania, Bulgaria, Yugoslavia and Poland—ruled by a communist puppet regime. Czechoslovakia still has a democratic government, but the communists, as the strongest party, control the premiership and have been responsible for extensive nationalization of private enterprises. In Finland, the communists are in a minority. The country has a democratic government of which the communists are members. But the nearness to Russia and the Russian grip on Finnish economy through reparations, leaves the Finns little choice. They must play up to their big neighbor.

Eastern and Western Europe Must Trade Together

The Russian-dominated Eastern European countries (counting in Finland) leave an area nearly as large as one-fourth of the United States and have about 90 million people. Their purchasing power has always been relatively small, particularly as far as American goods are concerned. In the years before the Second World War, the whole area took half as many of our exports as Mexico. Its economic importance to us has lain, rather, in its future trade potentialities. But Eastern Europe was and continues to be an important trade partner of Western Europe, both as a source of raw materials and foodstuffs, and as a market for industrial products. The two halves are economically complementary, and the rehabilitation of either half cannot be successful until more trade flows between them.

This lesson is being taught to us right now. Western Europe is still unable to obtain raw material and food surpluses from Eastern Europe in sufficiently large quantities. Hence she must obtain the bulk of her requirements from the Western Hemisphere. To do so, Western Europe has been spending her precious dollars—originally reserved for capital goods purchases in this country—to buy here such products as coal, non-ferrous metals, etc., all of which under normal circumstance she would have bought from Eastern Europe. Unless we are prepared to see a political and economic collapse of Western Europe, this country must continue to finance the huge purchases here.

This is where the suggestion of General Marshall comes in. If intra-European trade could be stimulated and if Western and Eastern Europe could exchange their surpluses more freely than now, the cost to us of European rehabilitation might be less. We may just as well face the fact that our help to Europe in the future may take the form not of loans, but of outright grants of dollars, a sort of peacetime lend-lease. As was pointed out in these pages be-

fore, the loans already granted to European countries will in a few years require a debt service (amortization and interest payments) that may approach one billion dollars a year. How will Europe pay it?

Eastern European Trade Still Below Prewar

The important question is to what extent the widening idealogical gulf between Western and Eastern Europe will interefere with their rehabilitation. The trade of Eastern European countries is still far below pre-war figures. However, it has been gaining steadily, and the trade of Czechoslovakia and Finland nearly quadrupled with the past year.

Hungary Has Trade Agreements with the Following Countries

ountry	Date of Agreement	Date of Expiration	Volume
Soviet Union	Aug. 27, 1946	Dec. 31, 1946	$30 million of which cotton work on commission represents $15 million.
Roumania	Apr. 13, 1946	Dec. 31, 1946	$2 million each way, on private compensation basis.
Switzerland	Apr. 27, 1946	June 30, 1947	Sw. Fr. 30 million (approx. value $7 million) each way.
Czechoslovakia	June 8, 1946	Sept. 30, 1946	Kc. 300 million (approx. value $6 million) each way.
Sweden	June 26, 1946	July 31, 1947	Sw.Kr. 19 million (approx. value $7.5 million) (imports). Sw.Kr. 19 million (approx. value $5 million) (exports).
Poland	June 28, 1946	June 28, 1947	$5.5 million each way.
Denmark	July 9, 1946	June 30, 1947	D.Kr. 7 million (approx. value $1.5 million).
Norway	Aug. 1, 1946	inimum 1 year	As per financial agreement between the two National Banks.
United Kingdom	Aug. 27, 1946	1 yr. unless Peace Treaty comes earlier into force	Unlimited. Monetary agreement authorizing the resumption of trade.
France	Oct. 4, 1946	Oct. 1, 1947	Fr. fr. 100 million (approx. value $0.8 million) each way.
Italy	Nov. 9, 1946	Nov. 9, 1947	Compensation agreement.
Austria	Jan. 1, 1947	Dec. 31, 1947	Exports provisionally fixed at $3.8 million. Imports provisionally fixed at $3.5 million.
Yugoslavia	Jan. 1, 1947	Dec. 31, 1947	No exact data released. About $12 million each way.

Source: Survey of the Economic Situation in Hungary, published by the Hungarian Commercial Bank of Pest.

The reasons for the low level of Eastern European trade are legion! (1) Exportable surpluses, with a few exceptions such as Polish coal and Czech sugar and glass, have been small. (2) The Russians in some cases are absorbing a considerable part of them. (3) Most of the trading has been on a bilateral basis, because of local currency instability. (4) In all Eastern European countries, foreign trade is a government monopoly and, as such, subject to cumbersome bureaucratic controls. (5) Transportation facilities have been inadequate.

The greatest progress in expanding foreign trade has been made by Finland and Czechoslovakia. The **Finnish** exports during the first quarter of 1947 were almost at the prewar level. Were the reparations included, Finnish exports would be larger than prewar. Since the Russians have fixed the prices of reparation goods at ridiculously low prices, the burden of reparations is heavy. The 1947 Finnish exports are expected to reach a $300 million level, of which $70 million will represent the reparation payments.

The value of **Czech exports** also exceeded the prewar level, but the volume is about half as large. Czechoslovakia had an export balance of about $80 million in 1946, owing largely to the fact that no large payments for imports of food were necessary, because of the UNRRA shipments. The Czech exports consisted of iron and steel products, glass and wood products, machinery, sugar, hops and motorcycles. Exports of imitation jewelry and novelties, important in the past for the creation of dollar exchange, have been relatively small. This was the consequence of the removal of highly skilled German workers from Bohemia.

Poland has been able to resume the export of textiles, industrial chemicals, and certain non-ferrous

Lajos Dinnyes, Hungary's new leftist premier, delivering speech

Photo by Int'l News

Ferenc Nagy, Hungary's elected premier, replaced by communists

Photo by Press Assoc.

Loans to Russian Satellite Countries

PRINCIPAL LOANS MADE TO CZECHOSLOVAKIA

		Amount	Interest	Term
BY THE UNITED STATES				
1945	Export-Import Bank(a)	$ 20,000,000	2½%	2-1/6 years
1946	Export-Import Bank	2,000,000	2½%	2-1/6 years
1946	Foreign Liquid. Com.	10,000,000	2⅜%	30 years
		$ 32,000,000		
BY GREAT BRITAIN				
1946	British Government	$ 10,000,000		
1947	Lazard Freres	50,000,000		
1946	Hambro Bros.	10,000,000		
BY CANADA				
1946	Credit Insurance Corp.	$ 19,000,000	2½%	9 years
BY SWEDEN				
1946	Swedish Government	$ 5,600,000		
BY BRAZIL				
1946	Brazil Government	$ 20,000,000		5 years
BY EGYPT				
1947	Egyptian Government	$ 10,000,000		5 years

(a)—Negotiations for a $50 million loan were suspended.

NOTE: Additional loans were made to Czechoslovakia by Mexico, Switzerland, and Argentina; the total probably exceeds. $200,000,000.

PRINCIPAL LOANS MADE TO GERMANY

		Amount	Interest	Term
BY THE UNITED STATES				
1946	Foreign Liquid. Com.	$ 10,000,000	2⅜%	30 years
1946	Foreign Liquid. Com.	5,000,000	2⅜%	30 years
1947	Foreign Liquid. Com.	15,000,000	2⅜%	30 years
1947	Export-Import Bank	7,000,000	2½%	18 months
		$ 37,000,000		
BY GREAT BRITAIN				
1947	Rothchild & Sons	$ 2,000,000		

LOANS MADE TO POLAND

		Amount	Interest	Term
BY THE UNITED STATES				
1946	Foreign Liquid. Com.	$ 50,000,000	2⅜%	30 years
1946	Export-Import Bank	40,000,000	3%	4½ years
		$ 90,000,000		
BY RUSSIA				
1947	Gold Loan	$ 28,875,000		
BY SWEDEN				
1947	Swedish Government	$100,000,000		4 years
BY GREAT BRITAIN				
1947	British Government	$ 48,000,000		3 years

LOANS MADE TO ROUMANIA

		Amount	Interest	Term
BY THE UNITED STATES				
1947	Chase National Bank	$ 7,000,000	2½%	4 years

LOANS MADE TO BULGARIA

		Amount	Interest	Term
BY CZECHOSLOVAKIA				
1947	Czechoslovak Government	$ 5,200,000	3%	

PRINCIPAL LOANS MADE TO FINLAND

		Amount	Interest	Term
BY THE UNITED STATES				
1945	Export-Import Bank	$ 5,000,000	2½%	1¼ years
1946	Export-Import Bank	35,000,000	3%	15 years
1946	Foreign Liquid. Com.	10,000,000	2⅜%	30 years
1946	Foreign Liquid. Com.	5,000,000	2⅜%	30 years
1947	Export-Import Bank	20,000,000	3½%	10 years
1947	Export-Import Bank	10,000,000	(short term)	
1947	Export-Import Bank	2,000,000	2½%	1¼ years
1947	Export-Import Bank	2,500,000	3½%	
1947	Foreign Liquid. Com.	10,000,000	2⅜%	25 years
		$ 99,500,000		
BY BRAZIL				
1946	Brazilian Government	$ 10,000,000		
BY SWEDEN				
1945	Swedish Government	$ 45,000,000	3½%	
1945	Swedish Government	19,500,000		

Additional loans were made by South Africa

metals (zinc). By far the most important however, were the exports of coal. Together with the exports of zinc, coal should yield large surpluses of hard currencies in 1947.

Hungarian trade (excluding reparations) was in 1946 on the volume basis only about 15 per cent of prewar trade. Exportable surpluses exist in electrical equipment, medicaments, certain chemical products, and furniture. Trade has been entirely on a bilateral (or barter) basis. Attached is a list of Hungarian trade agreements, listed by the Hungarian Commercial Bank of Budapest. It is quite typical of bilateral trade agreements made by other Eastern European countries.

The value of **Bulgarian trade** in 1946 was near the pre-war levels. But the prices were highly inflated and actual volume was only about one-third of prewar. The trade figures for 1946 for **Rumania, Yugoslavia** and **Albania** are at present not available.

Russian Attitude

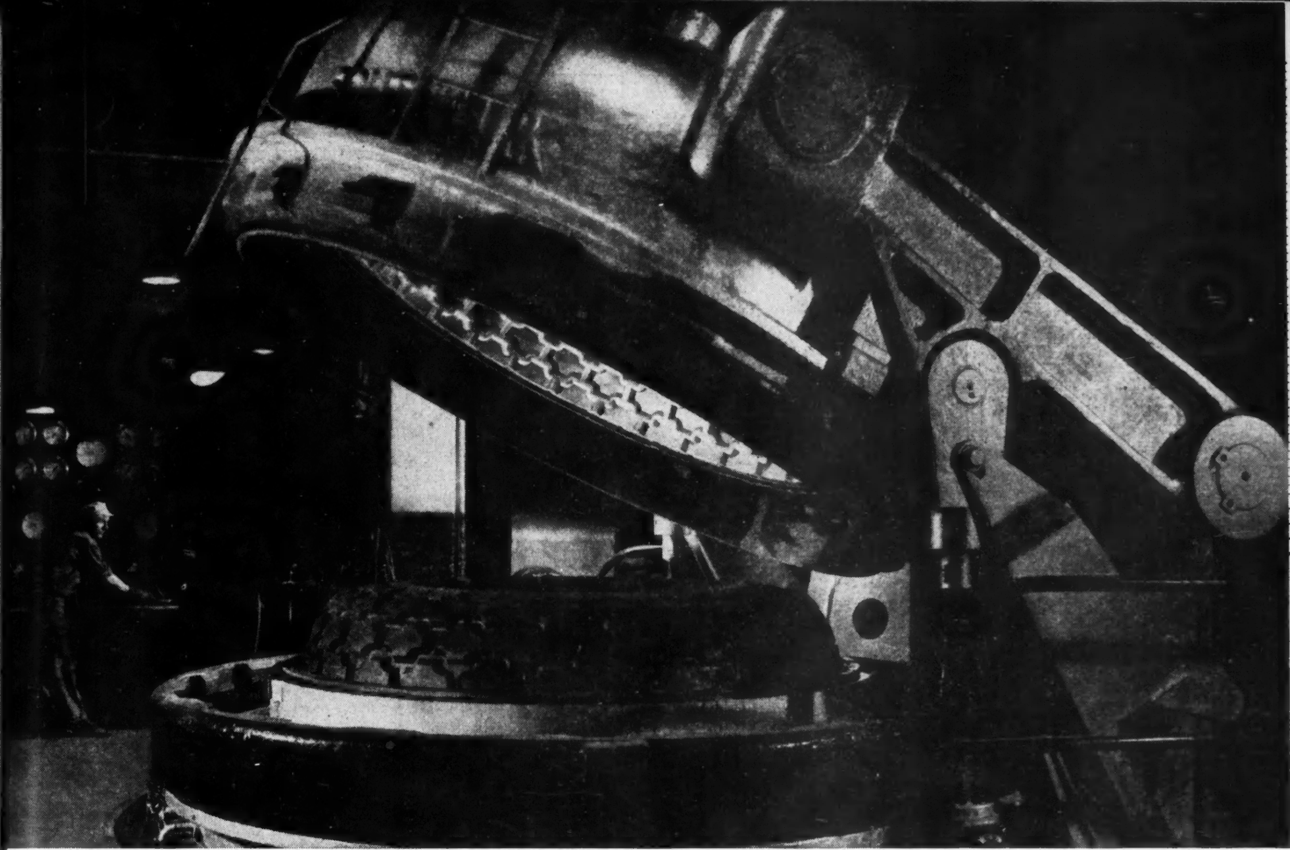
The most significant development in the pattern of the trade of Eastern European countries has been expansion of their trade with Russia as compared with prewar. But the Russians have by no means monopolized the Eastern European trade, except perhaps in the case of Bulgaria, which in 1946 sent Russia about 60 per cent of her exports and took about 80 per cent of her imports from the Soviet Union. The proportion of the Russian trade in the total Polish trade, dropped from 80 per cent in 1945 to less than 50 per cent during the first quarter of 1947. Hungary sent only about 10 per cent of her 1946 exports to Russia and Czechoslovakia about 12 per cent. During the first quarter of 1947, the trade with Russia accounted for only **about** 3 **per cent** of the total Czech trade. In contrast, trade with the United States was abount 12 **per cent** of the total trade. The United States was the third largest market for Czech goods. Switzerland and the Netherlands were the first and the second.

Contrary to popular view, the Russians do not prevent the Eastern European countries in their political sphere from establishing trade contacts with other parts of the world. The hitch is that the contacts must not lead to attempts to interfere with Russian economic interests.

Russia has come to occupy about the same place in the economies of Eastern European countries as Germany held before the war. Its attitude is somewhat different. Germany, being highly industrialized, discouraged the industrialization of her Eastern neighbors and preferred that they serve as sources of food and raw materials. Russia, by contrast, encourages the industrialization, since she can absorb practically unlimited amounts of industrial products. Since all Eastern European countries have normally large labor surpluses, industrialization should lead to a fuller employment than in the past and to an increase in purchasing power.

Poland and Czechoslovakia As Industrial Centers

Another postwar development that apparently has the blessing of Russia is the encouragement which the Eastern European countries give to their mutual trade. This has been brought about by necessity. Following the war, when everybody was hesitant about trading with them, Eastern European countries began to exchange their own sur- (*Please turn to page* 350)



by Firestone

World's largest tire mold which Firestone uses to produce giant tires for earth moving machines.

The Big Four in Rubber

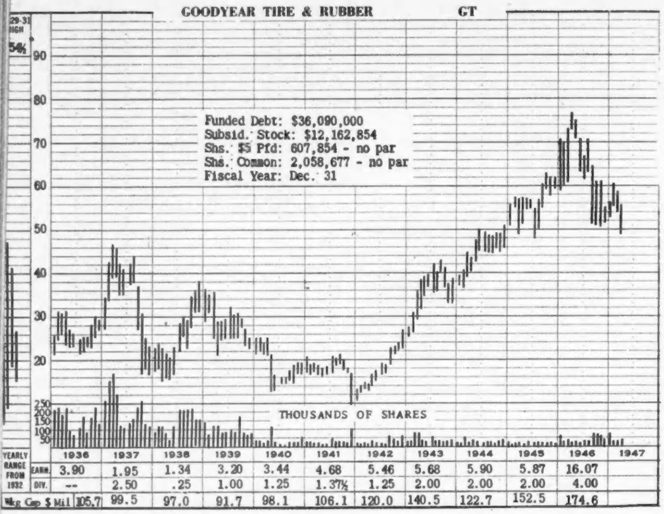
By RICHARD COLSTON

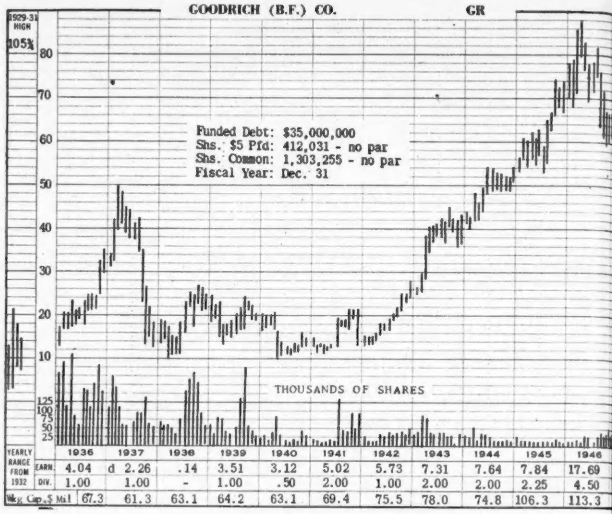
First of the major raw materials so critically short in war years to reach a status of over-abundance in the economy seems to be rubber. While this circumstance solves, for the leading manufacturers in this industry, one of the most pressing problems still plaguing other forms of enterprise, it is also raising a new crop of handicaps which must be overcome. Producers of crude rubber in the orient have discovered that wartime curtailment of their trade has served to swell the content of latex in their trees, so that an astonishing comeback in output has been effected. Compared with world stocks of 400,000 tons of natural rubber when the war started, the present supply of 900,000 tons is especially significant in view of the huge quantities of synthetic rubber now available in our domestic scene. After record breaking production and sales of tires for months past, too, there are indications that deferred demand for replacements will soon ease off. Hence price weakness has developed already both for natural rubber and for finished tires, expressive at the manufacturing and distributive levels alike. All of which means that the Big Four in rubber are approaching a near term competitive phase in their progress, spearheading the readjustment process that other industries in their turn must undergo. How Goodrich, Goodyear, Firestone and U. S. Rubber are likely to fare under conditions now developing is naturally puzzling their shareholders.

Although production of tires, for which the bulk of rubber is needed, has been rushing along at the unprecedented peacetime rate of around 100 million annually during the early months of the current year, it seems hardly possible that consumption factors can warrant this pace for long. In 1939 production was only 57 million tires for automobiles, trucks and buses. Output of new cars, to be sure, may take up part of the slack as owners of old equipment during the next half year satisfy their requirements on an increasing scale; but it is highly probable that the net result will be a tapering off of production and volume in coming months, in the tire field at least. On the other hand, the rubber manufacturers may stabilize operations considerably by pushing output and sales of the innumerable other goods at their disposal, such as rubber shoes, industrial belting, the new foam rubber mattresses, rubber springs and an endless list of similar items, including many in the realm of chemistry.

Government Controls Complicate Conditions

Government controls over the proportion of synthetic rubber in manufactures still require a usage of from 51% to 67% of this less desired material now at 18½ cents per pound, although quotations for the natural material have now dropped somewhat below that level. With production of the synthetic this year probably (*Please turn to page* 342)





GOODYEAR TIRE & RUBBER COMPANY

BUSINESS: Company for decades past has ranked as a leading producer and distributor of tires and tubes, as well as numerous other rubber goods. Diversification in recent years has led to a large outut of various plastics, while one subsidiary makes prefab houses and another aircraft. In addition to worldwide dealers outlets, Goodyear operates some 500 retail units, wholly owned.

OUTLOOK: As about 75% of this concern's revenues stem from sales of tires and tubes, and total volume for the past six months is reportedly above that for the relative 1946 period, 1947 totals may not differ widely from the $616.5 million achieved last year. When replacement demand slackens and profit margins narrow on output going to original equipment users, the company should push sales of Airfoam cushions, Pliofilm (transparent sheeting) and newly developed lines of plastic tubing, floor coverings, belting, etc. Export demand is expected to continue heavy for Goodyear's many products. While operating profits may decline somewhat under the impact of growing price competition, and net earnings may not equal the $16.07 per share reported for 1946, adjustments of reserve accounts could help support final net. Financially the company is in fine shape, even after last year's outlays of more than $30 million for expansion and modernization. Additionally a term credit for $75 million arranged with a group of banks is thus far said to be unused. Net working capital at the end of 1946 amounting to $174 million, nearly double the level of a decade ago, attests to an unusually strong position.

DIVIDENDS: With net earnings last year exceeding distributions to common stockholders by a margin of about 4 to 1, continuance of the $4 per share annual rate appears well assured, for a reasonable time at least. A much lower rate prevailed in prewar, however, and during depressed periods lapses occasionally occurred.

MARKET ACTION: A recent price around 43 compares with a high for 1947 of 61⅜ and is near the low mark for the 1946-47 period. During war years a range of 63¾-10¼ attests to considerable volatility.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 13,490	$ 50,793	+$37,303
Receivables, net	43,700	70,539	+ 26,839
Inventories	83,010	101,685	+ 18,675
Other current assets	....	174	+ 174
TOTAL CURRENT ASSETS	140,200	223,191	+ 82,991
Plant and equipment	193,531	265,392	+ 71,861
Less depreciation	115,215	174,700	+ 59,485
Net property	78,316	90,692	+ 12,376
Other assets	6,567	4,523	— 2,044
TOTAL ASSETS	$225,083	$318,406	+$93,323
LIABILITIES			
Notes payable	$ 500	....	—$ 500
Accounts payable and accruals	16,861	$ 33,938	+ 17,077
Reserve for taxes	16,762(a)	14,692(a)	— 2,070
TOTAL CURRENT LIABILITIES	34,123	48,630	+ 14,507
Minority interest	9,015	13,575	+ 4,560
Deferred liabilities	2,819	....	— 2,819
Long term debt	40,000	36,090	— 3,910
Reserves	10,123	36,602	+ 26,479
Capital	74,043	70,942	— 3,101
Surplus	54,960	112,567	+ 57,607
TOTAL LIABILITIES	$225,083	$318,406	+$93,323
WORKING CAPITAL	$106,077	$174,561	+$68,484
CURRENT RATIO	4.1	4.6	+ .5

(a)—After deducting $37.9 million U. S. Tax notes in 1946; $15.2 million in 1941.

B. F. GOODRICH COMPANY

BUSINESS: Broadly diversified activities are characteristic of this important rubber manufacturer. Tires, tubes, batteries, floor mattings, water bottles, footwear, latex cushions, Koroseal synthetic material, and various chemicals are among its many specialties. The company also distributes "Thor" home ironers and washing machines (made on the outside) and operates 465 service stores.

OUTLOOK: Since sales in the early months of 1947 are reported as about 30% above the corresponding period in 1946, they could trend downward later in the year and still produce satisfactory volume. Last year was a decided bonanza for this concern, for net earnings soared to $17.69 per share in a sellers market, for a total of $25.2 million. While final volume for 1947 may approximately equal the $361 million achieved last year, the company's recent announcement of a 10% cut in prices for passenger tires should tend to reduce dollar sales. Only about half of revenues, however, are derived from tire sales, and the company's output, as explained above, includes a broad variety of other items. On this latter, it may prove easier to maintain more adequate profit margins than on the highly competitive tires. Net earnings for 1947, though, can hardly be expected to equal those of last year, but judged by normal years should be highly satisfactory. In prewar the earnings record of Goodrich was quite erratic, reflecting sensativity to changes in general business conditions. At the beginning of the current year, net working capital stood at more than $100 million for the first time in the company's long history, thus disclosing a sound financial status.

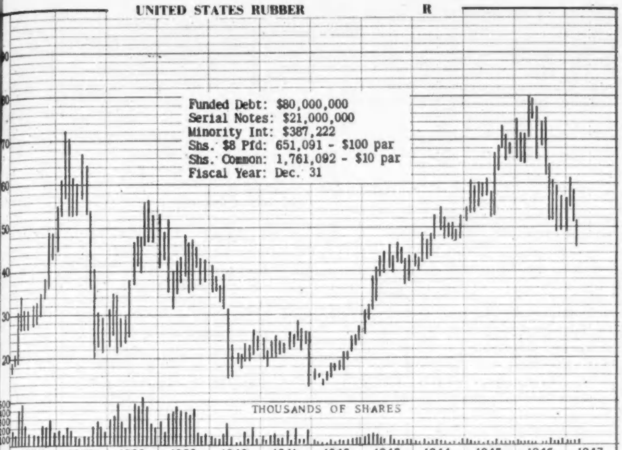
DIVIDENDS: During a number of depression periods dividend omissions have occurred, but during more favorable intervals distributions have been rather stable. Under current conditions the $1 quarterly rate is highly conservative, although in normal times it might seem quite liberal. During 1947 an extra may be forthcoming.

MARKET ACTION: Recent price—50, compared with a 1947 high of 71¾ and a low of 49½. Last year's peak was 88½.

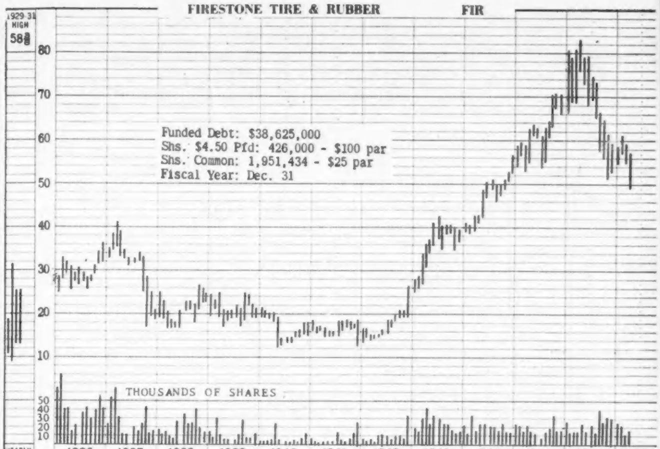
COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 14,400	$ 10,811	—$ 3,589
Marketable securities	....	12,131	+ 12,131
Receivables, net	35,359	45,305	+ 9,946
Inventories	43,339	78,531	+ 35,192
TOTAL CURRENT ASSETS	93,098	146,778	+ 53,680
Plant and equipment	97,278	140,932	+ 43,654
Less depreciation	46,849	77,744	+ 30,895
Net property	50,429	63,188	+ 12,759
Other assets	5,780	5,019	— 761
TOTAL ASSETS	$149,307	$214,985	+$65,678
LIABILITIES			
Notes payable	$ 2,611	$ 534	—$ 2,077
Accounts payable and accruals	13,256	32,778	+ 19,522
Reserve for taxes	6,966	139(a)	— 6,827
Other current liabilities	887	....	— 887
TOTAL CURRENT LIABILITIES	23,720	33,451	+ 9,731
Deferred liabilities	411	35	— 376
Minority interest	3	....	— 3
Long term debt	37,117	35,000	— 2,117
Reserves	6,482	19,356	+ 12,874
Capital	68,747	69,002	+ 255
Surplus	12,827	58,141	+ 45,314
TOTAL LIABILITIES	$149,307	$214,985	+$65,678
WORKING CAPITAL	$ 69,378	$113,327	+$43,949
CURRENT RATIO	3.9	4.4	+ .5

(a)—After deducting $24.4 million U. S. Tax Notes.



	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
EARN.	3.31	2.21	.43	3.12	3.58	4.86	1.82	5.82	5.31	4.44	10.23	
DIV.	--	--	--	--	--	2.00	--	1.00	2.00	2.00	2.00	
$ Mil	57.0	63.5	66.8	74.5	82.5	88.3	103.2	108.9	93.7	110.1	118.4	



YEARLY RANGE FROM 1932	1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
EARN.	3.28	3.33	1.27	2.03	3.02	4.37	5.04	6.40	7.34	7.42	13.21	
DIV.	.90	2.50	1.25	1.00	1.00	1.25	1.50	2.00	2.00	2.50	3.75	
Wkg Cap $ Mil	50.3	44.9	73.8	71.8	71.8	87.3	90.9	105.7	100.3	137.0	144.0	

UNITED STATES RUBBER COMPANY

BUSINESS: One of the world's most important producers of rubber in its manifold forms, sales of tires and tubes accounting for about one half of total volume. Rubber goods for household and industrial use constitute a wide variety of offerings. Additionally, the company is a large scale producer of tire cords and heavy chemicals.

OUTLOOK: The management of U. S. Rubber Co. professes confidence that capacity operations will continue during the balance of 1947. In support of this premise, sales of about $50 million per month during the first quarter of 1947 were approximately 40% above the relatively strong showing for 1946, though this pace may not continue throughout the year. That the company expects good business is shown by large outlays for additional factilities and the borrowing of $40 million last year in line with this program. Due to the du Pont interests in the concern, it is natural that General Motors is a large and steady customer, and chemicals count heavily in the company's over-all output. In pre-war, U. S. Rubber obtained about half of its supplies of natural rubber from its own plantations in the East Indies, carried on the books at about $19 million before Pearl Harbor but subsequently charged off as a war loss. Recovery of these properties in British Malaya may now tend to swell revenues again but political conditions thus far have precluded recovery of the Sumatra plantations. Net earnings of United States Rubber last year were equal to $10.23 per share, practically double the best showing for many previous years.

DIVIDENDS: The current favorable potentials have led the management to place the quarterly dividend rate at $1 per share, indicating that $4 may be distributed during 1947, compared with $3, including an extra, in 1946. As with most of the rubber concerns, prewar payments were sometimes interrupted during depressed intervals.

MARKET ACTION: A recent price of 42 compares with a 1947 peak of 60½ and a low of 41¼. During the past nine years the range has been from 73½ to 13½, indicating above-average fluctuations.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31, 1941	Dec. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 29,136	$ 25,751	—$ 3,385
Marketable securities	9,829	....	— 9,829
Receivables, net	39,185	60,314	+ 21,129
Inventories	76,665	101,087	+ 24,422
TOTAL CURRENT ASSETS	154,815	187,152	+ 32,337
Plant and equipment	178,248	247,908	+ 69,660
Less depreciation	111,295	174,053	+ 62,758
Net property	66,953	73,855	+ 6,902
Other assets	2,936	6,336	+ 3,400
TOTAL ASSETS	$224,704	$267,343	+$42,639
LIABILITIES			
Accounts payable and accruals	$ 38,922	$ 49,374	+$10,452
Reserve for taxes	23,842	19,294(a)	— 4,548
Other current liabilities	3,700	....	— 3,700
TOTAL CURRENT LIABILITIES	66,464	68,668	+ 2,204
Deferred liabilities	....	944	+ 944
Minority interest	419	387	— 32
Long term debt	37,947	40,000	+ 2,053
Reserves	7,726	11,647	+ 3,921
Capital	82,500	82,700	+ 200
Surplus	29,648	62,997	+ 33,349
TOTAL LIABILITIES	$224,704	$267,343	+$42,639
WORKING CAPITAL	$ 88,351	$118,484	+$30,133
CURRENT RATIO	2.3	2.7	+ .4

(a)—After $8.7 million U. S. Tax Notes.

FIRESTONE TIRE & RUBBER COMPANY

BUSINESS: For almost half a century past this concern has been establishing itself as a leading producer of tires, tubes, and other rubber specialties, as well as plastics and tire cords. Its customers include most of the leading makers of automobiles and farm equipment, not to mention 35,000 dealers in the distribution field, and 700 company owned stores.

OUTLOOK: An outstanding record for growth and earnings stability over a long period of years promises well for this concern during the approaching change in conditions which is looming up for this particular industry. Integration is enhanced by production of about 48 million pounds of natural rubber annually from the company's Liberian plantations. Extent and diversification of production of finished goods is shown by daily consumption of more than 2 million pounds of rubber in the company's many plants, and output of 500 hundred tons of finished steel products. Net sales of $577 million last year, along with net earnings equal to $13.21 per share for the fiscal year ended October 31, 1946, established an all time record for any peace year since 1928. For the past nine years net has shown a consistent uptrend. Working capital of almost $144 million is far above prewar levels, in part due to accumulated earnings and partly because of heavy borrowings on term notes at low rates. While sales and profits of Firestone may have passed their recent peak, the outlook for entirely satisfactory results compared with prewar is all on the bright side.

DIVIDENDS: Since 1924 Firestone has not failed to pay dividends, although the rate has varied. During war years the annual rate trended gradually up from $1.50 per share in 1942 to $3.75 in 1946, with the currently quarterly $1 in effect since the beginning of the year. This conservative rate is well warranted.

MARKET ACTION: Recent price for Firestone shares of 43 represented a low point for 1947, compared with a peak of 61 in 1947 and a range of 83½-51 during 1946. During war years the price ranged from 70⅝ to 13⅜.

COMPARATIVE BALANCE SHEET ITEMS

	Oct. 31, 1941	Oct. 31, 1946 (000 omitted)	Change
ASSETS			
Cash	$ 13,400	$ 30,117	+$16,717
Marketable securities	....	2,140	+ 2,140
Receivables, net	44,821	69,762	+ 24,941
Inventories	74,264	98,896	+ 24,632
Other current assets	2,352	....	— 2,352
TOTAL CURRENT ASSETS	134,837	200,915	+ 66,078
Plant and equipment	122,885	158,732	+ 35,847
Less depreciation	42,946	81,655	+ 38,709
Net property	79,939	77,077	— 2,862
Other assets	11,012	10,158	— 854
TOTAL ASSETS	$225,788	$288,150	+$62,362
LIABILITIES			
Notes payable	$ 10,654	....	—$10,654
Accounts payable and accruals	14,906	$ 38,953	+ 24,047
Reserve for taxes	17,653	17,984(a)	+ 331
Other current liabilities	4,307	....	— 4,307
TOTAL CURRENT LIABILITIES	47,520	56,937	+ 9,417
Deferred liabilities	1,922	....	— 1,922
Minority interest	552	458	— 94
Long term debt	48,000	40,000	— 8,000
Reserves	10,000	29,416	+ 19,416
Capital	65,964	90,171	+ 24,207
Surplus	51,830	71,168	+ 19,338
TOTAL LIABILITIES	$225,788	$288,150	+$62,362
WORKING CAPITAL	$ 87,317	$143,978	+$56,661
CURRENT RATIO	3.8	3.5	— .3

(a)—After $25.8 million U. S. Tax Notes.

Who Foots the Bill?

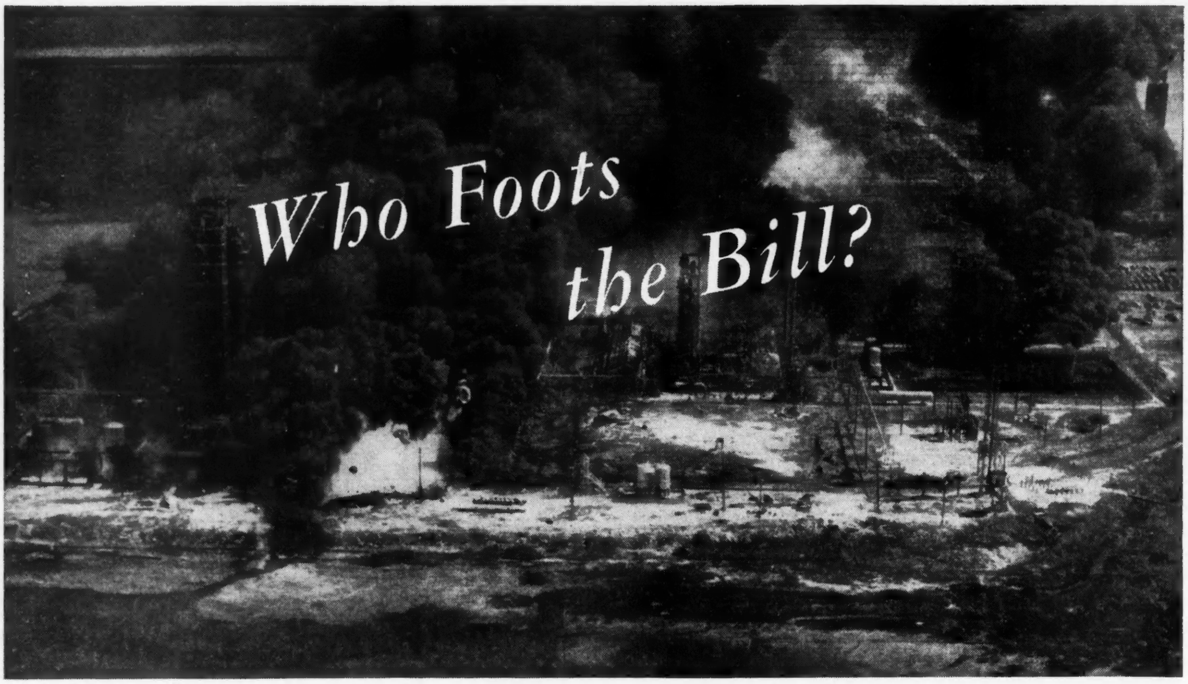


Photo by International News

Air view of the explosion area of Texas City, Texas, shortly after dawn on April 17 as fires raged for the second consecutive day. Monsanto's huge styrene plant is in the foreground.

By FRANK R. WALTERS

News of the terrific chain of explosions in Texas City on April 16, 1947 shocked the nation. Prominent in the announcement was the fact that the giant Monsanto Chemical Company war-built styrene plant had been completely razed.

Naturally, stockholders wondered what effect this would have on that company since it had only been last Fall that the plant was purchased for $9,500,000 from the Government and additional facilities costing about $1,000,000 were nearing completion. A heavy loss, indeed!

But . . . industry for generations has withstood the impact of floods, fires, panics, wars . . . and carried on to attain greater strength and productivity. Therein lies the story of the fire and casualty-surety insurance companies as protectors of American wealth.

How Monsanto Was Safeguarded

The company states that the plant and contents were insured for $14,750,000, including coverage of inventory worth about $1,000,000 and depreciated value of its building, machinery and equipment on a 90% co-insurance clause. While the price paid the Government was lower, the reconstruction costs today would probably be well in excess of insurance.

Further, the plant was covered by $7,500,000 of Use and Occupancy Insurance and a $2,500,000 of Public Liability Insurance. Practically all employees, over three months with Monsanto, were covered by Group Insurance plan. So, the greater part of the loss was footed by the insurance companies.

Of course, the loss of such an important unit will affect the output of, and the potential profits from the derivatives of styrene which Monsanto planned to manufacture. Hence there will be an adverse effect on near-future profits.

The company has, also, quietly given $1,000 cash to each widow or direct dependent of employees killed (estimated at 117 dead and 28 missing). This was in addition to the group life insurance, workmen's compensation, hospitalization and other payments. This policy wil pay in the long run and Monsanto will find its progress only slightly retarded—thanks to insurance protection.

Carelessness A Costly Factor

In recent years there has been a great increase in losses through fire due to a large extent to carelessness. Contributing influences were reduced maintenance care, neglect of structural safeguards and fire fighting equipment—as well as shortages of fire department personnel and equipment. It is suspected, too, that sabotage and arson are playing their role — just as there was an increase in fire losses after World War I, from less than $200 million in 1915 to $526 million in 1926. The National Board of Fire Underwriters provides us with the following table of fire losses from 1940 through first quarter of 1947, an appalling record:

FIRE LOSSES (millions of dollars)

1940	$306.5
1941	322.4
1942	314.8
1943	380.2
1944	423.5
1945	455.3
1946	561.5
1947	154.8 (1st quar.)

Public awareness is improving due to the publicity given the more spectacular fires such as that in Texas City and the series of hotel fires last year, but there is still greater care necesary. Expansion of fire departments and improvements in apparatus will help but the outlook is still unprofitable for the fire insurance companies in 1947, although 1948 should be better.

A record volume of premiums was written by fire insurance companies in 1946—about 25% beyond the 1945 volume. This strong gain kept the operating expense ratio from growing despite higher costs. However, fire losses must be expected to continue at a high level and unless there is a further sharp growth in premiums or still higher rates are permitted the profit outlook will not improve materially until next year in all probability. The prospective recession in business will be likely to have little effect on fire insurance companies since their business is diversified over all industry and is determined by the homes already built, factories in existence, whether operating or not, and the number of motor vehicles registered.

Automobile Losses Heavy

With the roads again crowded with cars, many old and improperly cared for, because of high repair costs, the automobile insurance writing again proved unprofitable in 1946, although losses were smaller than in 1945. This decrease was largely due to rate increases rather than more careful driving. Collision insurance was most unprofitable and rate increases are fully justified. The outlook for 1947 is not satisfactory, but as more and more new cars come into use the record should improve.

Of course, rates cannot be put through promptly enough to keep in line with mounting claims since the insurance firms usually have a normal quota of business on hand that must be run off before new quotations are applicable. This time lag is often costly as has been the case with automotive claims since cars have deteriorated faster, with a consequent increase in accidents, than rates could be raised.

Ocean and inland marine coverage was a profitable field for insurance companies. Losses are higher than prewar in both categories but ocean marine losses are far below 1942 peak. The accompanying table shows the losses incurred as a percentage of premiums earned by fire insurance companies excluding loss adjustment expenses. The figures are from A. M. Best Co., Inc.

	Fire	Motor Vehicle	Ocean Marine	Inland Marine
1939	41.0	49.3	48.5	42.8
1940	42.9	54.1	42.6	47.1
1941	43.5	59.0	58.0	47.5
1942	42.1	44.4	99.9	46.3
1943	49.7	41.2	45.8	53.3
1944	51.5	59.4	50.3	52.4
1945	52.8	69.0	52.0	52.8
1946	53.5	64.1	57.2	54.3

Earnings of the fire insurance companies come (1) from dividends and interest on securities held and from rents on properties owned and (2) profits from premiums written. The former source over the years brings 70% of income and the latter about 30%. When times are good security profits are higher and losses are usually less as there is more to spend for new fire apparatus, new automobiles and general care and maintenance.

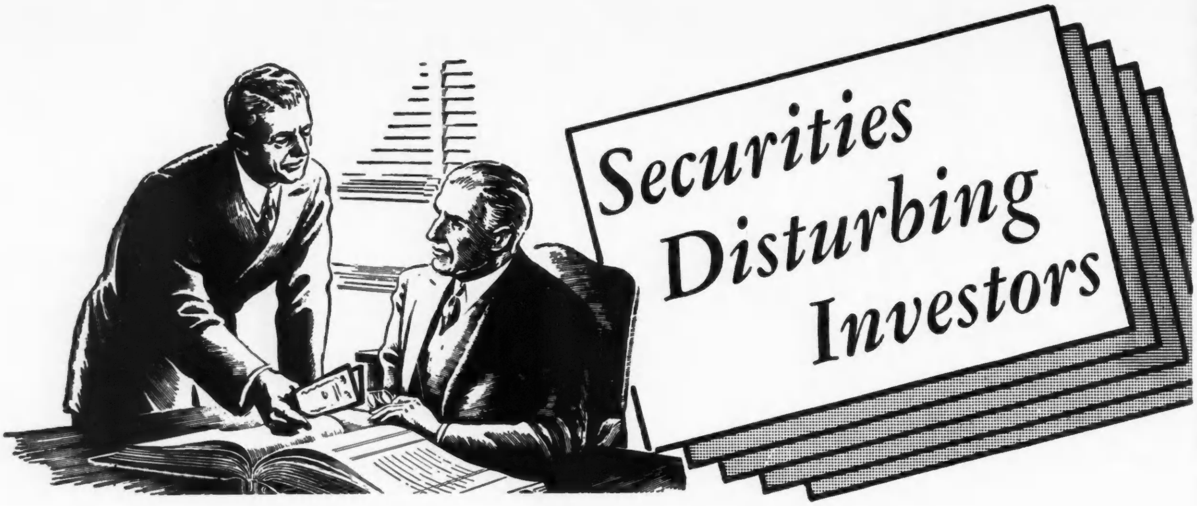
In times of depression, maintenance is skipped or cut and securities are less productive. About 75-80 per cent of income usually is paid out to stockholders in the form of dividends although this varies with individual companies. The remainder is plowed into the companies' (*Please turn to page* 348)

Earnings Position of Representative Fire and Casualty Companies

	Net Per Share*		Premium Earned ($ Million)		—— Dividends Paid ——			Liquidating Value	1946	Recent	
	1945	1946	1945	1946	1945	1946	1947 to date	Per Share	Price Range	Price	Yield
Aetna (Fire) Insurance	$4.01	$3.98	$32.9	$38.0	$1.80	$1.80	$1.00	$78.75	62 -46¾	$50	3.6%
American Insurance (Newark)	1.37	3.09	22.6	28.2	.60	.70	.35	27.92	21½-16¼	20	3.5
American Surety	11.97	3.36	10.5	12.2	2.50	2.50	2.50	87.58	78½-52	54	4.6
Continental Insurance	3.17	3.56	29.0	32.4	2.00	2.00	1.00	63.13	63 -46⅛	49	4.1
Fidelity Phenix Fire Insurance	3.33	3.92	22.9	26.2	2.20	2.20	1.20	69.60	70 -49	52	4.2
Firemans Fund Ins. of San Francisco	9.30	6.71	32.6	35.8	3.00	3.00	1.50	107.55	118½-89	94	3.2
Great American Insurance	2.23	1.81	20.5	23.5	1.20	1.20	.90	43.73	36 -25¾	28	4.3
Hartford Fire Insurance	9.30	6.14	55.9	64.4	2.50	2.50	2.00	136.48	129½-92½	100	2.5
Home Insurance of New York	2.37	1.48	69.4	79.7	1.20	1.20	.60	36.82	34⅜-23¼	25	4.8
Insurance Company of North America	6.01	5.43	40.4	42.7	3.00	3.00	3.00	107.75	112 -82	92	3.3
National Fire Insurance	1.29	.27	20.5	24.1	2.00	2.00	1.50	90.68	71¾-48¾	48	4.2
North River (Fire) Insurance	1.27	1.79	8.8	9.7	1.00	1.00	.50	30.65	27 -20½	22	4.5
Phoenix Insurance	4.39	3.46	13.0	15.2	3.00	3.00	2.00	116.83	99¾-74	80	3.7
St. Paul Fire & Marine	5.06	4.84	21.9	27.8	2.00	2.00	1.00	62.30	80½-62	66	3.0
Standard Accident Insurance	4.63	def3.17	20.8	27.1	1.45	1.45	.72½	49.31	43 -25	29	5.0
U. S. Fire Insurance	2.82	4.75	14.2	15.9	2.00	2.00	1.00	74.67	62 -44½	52	3.8

*—After federal income taxes, and consolidated.

Securities Disturbing Investors



PART III
By EDWIN A. BARNES

In recent weeks when prices for numerous shares have established new 1947 lows, many of our readers have expressed anxiety when their favorites have been included in this roster. During a period like the present one, where economic and political uncertainties clearly account for the general downtrend in the stock market it is not wise to attribute undue significance to the factor of price as an alarming symptom. Where well informed investors have built up their portfolios with proper attention to underlying fundamentals and with an eye mainly to a reasonably assured income, a low level of share prices should stimulate confidence to buy additional shares when just the right period arrives. As for the more speculative issues, on the other hand, highly sensitive as they are to near term potentials, either good or bad, dismal quotations may be fully justified upon analysis, or, to the contrary, disclose an opportunity for eventual appreciation. These divergent situations, on the basis of recent inquiries received by the Magazine of Wall Street, deserve our comment in a few selected cases.

Pullman, Inc.

Now that this concern has disposed of all its interests in the sleeping car business, it is emerging into an entirely new phase of its 80 year old experience. From now on its earnings will be derived from its railroad car building activities (most extensive in the nation), or those of its chemical engineering subsidiary, M. W. Kellog Co. As a result of the sale of the Pullman Co., the parent concern has far more cash on hand than it can possibly need to run its present business. Indeed current working capital is thought to be around $190 million, equal to about $60 per share. Hence the company proposes to use part of its excess cash to retire up to 636,000 shares of its capital stock and has invited tenders at a price not to exceed 57.50 per share, although stockholders have authorized it to pay up to 60 in the open market if it becomes necessary. If successful, this step will reduce the outstanding shares by about 20%, thus increasing potential share earnings correspondingly. Multiple handicaps last year brought disappointing results for Pullman, with a final net of 64 cents per share, but with the way now cleared, net per share rose to 71 cents in the first 1947 quarter and if the capital structure shrinks as planned, it is estimated that a full year showing of around $4.50 per share could be achieved. With a record backlog of more than $270 million for the car making division and over $100 million for the Kellog unit, the outlook is encouraging. While the stability of the sleeping car business, enabling an unbroken dividend record since 1867, no longer enters the picture, for several years to come at least Pullman should prosper substantially. Through further diversification it may in time offset the traditional sensitivity of the railroad equipment industry to periods of widespread depression. At current prices around 56, compared with a 1947 high of 61½ and a peak of 69⅜ in 1946, these shares seem reasonably priced and the 75 cents per share quarterly dividend appears secure. Should the market decline further in the near term, the shares might carry considerable appeal.

Columbian Carbon Company

Some shareholders in this concern who paid 48 for their holdings at the top of last year's boom may have felt disconcerted recently when they noted the price hovering just above 30 and establishing a low mark for the current year. Quite naturally a shrinkage in market value of around 38% in hardly more than a year's time is more than nominal. At the very outset of our discussion in this instance, however, we would suggest that the market trend has been running rather strongly counter to the progress and favorable potentials of this successful producer of natural gas and carbon black. The company is well established in a growth industry with a wide horizon, has paid dividends without a break for 31 years past, earned $3.29 per share last year and $1 in the first quarter of 1947. Recently the dividend rate was increased from 40 cents quarterly to 50 cents. Net income of $34.3 million in 1946 was the largest on record, with indications of possible further improvement in the cur-

rent year. With 1142 producing wells and controlling an acreage of 623,497, Columbian diversifies production by turning out natural and liquified gas, carbon black, printing inks, pigments, iron oxide, varnish, and related products. All said, this enterprise has strong fundamentals leaving a slim basis for speculative pessimism. As for the declining level for its shares, best guess is that they sold higher than their merits last year and the price now has become more nearly adjusted to the general status prevailing for other equities of similar grade. Unless a serious depression sets in, the dividend appears secure and a yield of 6.7% carries considerable appeal. With proper timing, shareholders in this concern may find it advantageous to average by acquiring additional stock, and should watch for a signal from our Mr. A. T. Miller, whose advice appears regularly in every issue of the Magazine of Wall Street.

A. Hollander & Son, Inc.

This concern is the world's largest in its special field, and is the outgrowth of a business started in 1889. Hollander dresses, cures, dyes and blends furs of all kinds, maintaining offices in New York, Chicago and Paris. For many years operations have been quite profitable, although modest deficits occurred in 1932 and again during 1939-40. Although inherently dependent upon a volatile luxury trade, the company's outstanding reputation for skilled workmanship has tended to give a fair measure of stability to the business, though over a term of years net earnings have been variable. Enhancing this factor is the advantage Hollander enjoys in operating largely on a contract basis, deriving its chief revenues from processing, and thus avoiding the risk of carrying high priced inventories, the values of which could drop fast when poor times arrived. The December 31, 1946 balance sheet, for example, showed that of current assets totalling about \$2.9 million, processing materials and raw furs accounted for only an approximate \$345,000, with accounts receivable and cash representing the balance. For these reasons, the company was entirely free from bank debt. In reflection of unusually bright prospects early last year, the price of Hollander shares rose to a peak of 40 in 1946. Of late, after a long decline they have reached a level around 14, although 1946 net earnings equalled \$3.11 per share. In the early months of 1947, sales dropped off rather drastically for a time when consumers began to defer luxury purchases and to resist high prices. More lately, though, the company has reported that its plants are working at more than 90% of capacity. Dividends paid in the first quarter were equal to 25 cents a share, and if continued would provide a yield of 7.1% with a price of 14. In retrospect, the price for these shares has usually been highly volatile, as shown by the 1937 range of 30¾-7¾ for example. And during the five years preceding 1943, the peak price never reached the current level of 14. Despite the drastic decline from last year's high, therefore, prospects for near term appreciation are not overly bright and the shares must be considered as highly speculative, everything considered.

Plough, Inc.

This long established producer of numerous proprietary remedies, including St. Joseph Aspirin and Penetro nose and throat specialties, enjoyed record-breaking prosperity in 1946, to top a consistent uptrend in sales and earnings for nine years in a row. In contrast to this good showing, prices for its shares have shown a weakening tendency, a recent quotation of 10½ representing a low for 1947. Earlier this year the price was 14¼ and in the spring of 1946 reached a peak around 22. Net earnings last year were reported as equal to \$1.08 per share. The 1945 dividend of 40 cents per share was boosted to 50 cents in the following year and current quarterly distributions at the rate of 15 cents per share show a further improved status. As inventories have been held down to a level closely akin to 1945, no bank loans have been needed, and currents assets exceed current liabilities by about 4 to 1, the company financial status is sound. As a result of some \$25 million spent for promotional activities all over the world during past years, Plough's record for earnings and dividends stability is exceptionally good. One circumstance that may have helped to influence a lower price for the shares, though, is that first quarter net earnings for 1947 were reported as only 21 cents per share. If the full year were to show no uptrend from this level a moderate decline to 84 cents per share compared with \$1.08 would result. While this covers the current dividend comfortably, it is possible that some makers of proprietaries are headed for approach to more normal peacetime conditions than were exhibited last year. The shares are undoubtedly sound and no threat may exist as to dividends at the current rate. From a longer term holding viewpoint, this one-class stock has merit, but as a *(Please turn to page 342)*

Statistics on Stocks Disturbing Investors

	Current Ratio (Assets to Liab.)	Net Per Common Share: Pre-War 1938-41 Avge.	War 1942-45 Avge.	Fiscal Year 1945	Fiscal Year 1946	For 3 months Ended Mar.31, 1947	1946 Dividend	1946-47 Price Range	Recent Price	Price-Earnings Ratio
Columbian Carbon	3.8	\$1.90	\$1.98	\$2.08	\$3.29	\$1.01	\$1.60	48 -30⅜	\$31	9.4
Grand Union (a)	2.5	1.60	2.33	3.46	6.84	See (a)	1.65	54½-30¼	32	4.7
Hollander, A. & Son	1.9	.21	1.91	1.69	3.11	......	1.25(x)	40 -14¼	15	4.8
Plough	3.9	.55	.96	1.05	1.08	.20	.50	22 -10½	11	10.2
Pullman	4.5	1.73	3.42	4.30	.64	.71	3.00	69⅜-47½	56	87.5
Zonite Products	3.3	.11	.57	.82	.91	.23	.60	14¾- 5⅝	6	6.6

(a) Fiscal year ends February 28 of the following calendar year.
(x) Plus 5% stock.

FOR PROFIT AND INCOME

The Pay-Off

At least in investment theory, the value of common stocks depends in large measure on the dividends paid or anticipated. On the whole, present dividends are excellent on an absolute basis, but low on a comparative basis. They are low compared with national income, wages or prices. Total dividend income today buys less than did the smaller dividend income of 1939. Even in depreciated dollars, it has yet to surpass the payments in such now distant years as 1928-1930. In ratio to earnings, dividends appear to be at a record low. The National City Bank estimates total earnings of all corporations for last year at $12 billion, aggregate dividends at $5 billion or not quite 42% of profits. Before the war something like 70% was considered a normal figure. Both earnings and dividends are currently above the 1946 levels, but the relation between them cannot have changed much, if any. Relatively little of the gravy in this boom has gone to stockholders.

Yields

However, for those who have to get investment return out of accumulated cash capital, securities are in most cases the only feasible choice. In degree of safety of principal — which is to say market stability — these range all the way from short-term Government obligations to the most speculative equities. Without attempting to say where the general market decline might end, the fact remains that the basic investment attraction of good-grade dividend-paying stocks is increasing for the simple reason that the yield differential, as against return on best long-term bonds, has widened importantly. On representative better-grade industrials, the current yield now exceeds 5% and is over double that on high-grade bonds. Only under New Deal "cheap money" has the relationship been more extreme than this at bear market lows. Thus, at the 1942 market low, stocks yielded over three times as much as bonds. They yielded roughly twice as much as the 1932 and 1938 market lows, or about the same relationship as now prevails.

The Outlook

The 1920-1921 depression in production lasted 13 months from peak month to low month, but the nose-dive part of it (the recognizable depression) lasted only 7 months, from late summer of 1920 to spring, 1921. Most economists think the presently indicated recession will compare roughly with that in duration, but not in severity of decline in production and prices. This view seems well-founded. If so, there is one consolation for investors in the present extremely low ratio of dividends to earnings. It means that, even though the quarterly rate of earnings might be sharply lower for a time, dividends are likely to remain pretty close to the present level. This column ventures to predict — and there is no great risk of error — that they will be far better maintained, on an average, than in any preceding important business recessions in our history; and that, aside from marginal or quite secondary companies, omissions or reductions in regular rates during this bear market will be rare. Together with continuing low high-grade bond yields, it suggests that the buying zone in dividend-payers of good investment calibre probably must be put well above the lows in the last peace-time bear market, which was that of 1937-1938.

Cigarettes

The cigarette business is about as depression-proof as anything can be. Volume goes up over the years from one plateau to another but never comes down significantly. Compared with this secular growth, the situation in the cigar and snuff branches of the tobacco industry is static. Cigarette consumption has increased about two and one-half fold over the last 20 years. It has increased 80% from prewar 1939. In the worst of depressions — 1929-1932 — it fell only 13%; and has been completely untouched in moderate and short depressions like 1937-1938. Hence, earnings power of the companies has always depended mainly on the relation of selling prices to costs, assuming adequate com-

petitive success. Except under wartime price regulation by the Government, this ratio has always been controllable. That is why, in good or bad times, the earnings and dividend records of the leading companies have been outstanding. In order of sales, they are American Tobacco, R. J. Reynolds and Liggett & Myers. Their earnings, with price adjustment effected last autumn and more normal margins restored will show additional wide gains this year; and should hold around the advanced level more or less indefinitely, so far as this column can see. Dividends, low during the wartime squeeze on profits, have been moderately raised in most cases, and further raises over the next year or two seem probable. The three stocks cited offer attractive yields, and appear soundly priced for longer-term investment purposes despite the possibility of somewhat lower quotations.

Food Stocks

The threat of possible inventory losses overhangs food-processing companies; but in some cases it could easily be exaggerated, taking into account the rapidity of inventory turnover and assured (no doubt permanent) Federal support of farm prices. If non-farm prices stabilize about 15% under the present average level, which is the most this column would hope for, the average decline in farm prices would be a little under 30% to the support levels. There is no question that food-company earnings will be under recent record levels. The question is whether present prices of the stocks discount more profit shrinkage than is likely to occur. They probably do, in the case of top-flight companies. But it can be argued that the stocks are unlikely to rise significantly until there has been something of a test of their actual response to substantial food-price declines. And it cannot be denied that they might work somewhat lower meanwhile, given more general market unsettlement.

Dairy Products

It may be noted, as a matter of interest, that from December, 1937, to the end of 1938, the average price of dairy products — butter, cheese and milk — fell 18%. Yet in 1938, with dollar sales down about 5%, National Dairy Products netted about 11% more per share than in 1937. Inventory losses certainly did not bother it in that situation. In the fiscal year ended February 28, 1939, earnings of Beatrice Foods rose over 19%, although selling prices were lower than in the previous fiscal year by pretty much the proportion already cited for National Dairy for the 1938 calendar year. The management of Beatrice states that last year the inventory was turned over twenty-eight and one-half times; and that dollar-value of inventory on February 28 was less than a year ago, despite sharply higher sales and prices. This company earned $10.03 a share last year. Supposing profit were cut in half to $5 a share, probably an extreme allowance, the stock around 46 is priced only a shade over nine times that figure.

Woolworth

Judged by the record of the past, no other retailing firm can equal Woolworth in the way it rides out periods of general business depression or recession. Of course, sales in the whole variety-store field are fairly well maintained in poor times, because of the emphasis on staple items and economy prices. Woolworth's edge seems to be in cost control and avoidance of important inventory losses. It was virtually untouched in the depression of 1920-1921 and only moderately affected by those of 1929-1932 and 1937-1938. In none of them was coverage of the regular dividend even in question. Inclusive of extras, this column figures Woolworth as a $2.50 dividend-payer, yielding over 5% around present price of 47. But it may well be bought under that figure. Anwhere in the lower 40's, comparing with the 1937-1938 bear-market low of 34, it would appear to be in a long-term buying zone. The low referred to was made in 1937, ahead of the market. That could happen again.

Oils

Leading oil stocks continue to justify the confidence this column has expressed in them. There is no question that earnings will record good gains this year; and it is hard to see what can put these earnings importantly lower over the longer-term, regardless of business recession. Since volume will rise further, only lower oil prices can do it; and they are not in sight. Top-grade oils remain among the best defensive holdings over the rest of this bear market.

Two Chemicals

Union Carbide, about which we have said some nice things, recently made a new high for the year. On an investment basis, it is soundly priced, although unlikely to show significant percentage gains at this stage of the general market. For long term growth it may well be that the maximum potential, in the entire chemical group, is offered by the higher-priced Dow Chemical. True, it has already had a spectacular growth. But, among the stronger companies, it is still of sufficiently moderate size in sales and capitalization (there are only 1,248,706 shares of common) to permit important gains in net per share.

Two Drugs

There is nothing whatever the matter with the prospect for makers of ethical drugs, regardless of general business conditions. One of the most conservative of these stocks is Parke, Davis. It is a slow-mover, already in a buying zone as judged by historical price range in less severe peacetime bear markets. There is more "umph" in Abbott Laboratories. This issue is not cheap on historical price range, but cannot be properly judged thereby, since the company's growth in modern years has been phenomenal and shows no evidence of being over. Around 75, this stock is reasonably priced on what this column figures for both current and continuing earnings.

Timing

Taking into account the past peacetime relation between market and business trends, and the apparent logic of the present situation, it is this column's view that the rest of this bear market is much more debatable with respect to possible additional points of decline in the average than with respect to the time factor. In short, it is highly probable that the next major advance in the market is quite a distance ahead, suggesting plenty of time to buy speculative stocks.

Answers to Inquiries

The Personal Service Department of The Magazine of Wall Street *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Nopco Chemical Co.

Please advise late earnings and prospects for Nopco Chemical Co.

I.R., Bath, N. Y.

The corporate name of National Oil Products Co. was recently changed to Nopco Chemical Co.

Business was originally founded in 1907 with a capital of a few thousand dollars and manufactured only one single product, now company manufactures a long list of products and had a total capital of $6,129,526 as of December 31, 1946.

Nopco is essentially a chemical company, inasmuch as it manufactures processed oils and other products utilized in textile, metal, paper, printing and other industries. Other products include vegetable and fish oils, cod liver oil for poultry and animals, vitamins, male hormones and soap and shampoo items, synthetic skin detergent, etc.

Net sales for fiscal year ended December 31, 1946 amounted to $16,951,352 and net income was $1,012,735 equal to $4.61 a common share, compared with $2.29 in 1945. Net sales for three months to March 31, 1947 were $5,097,506 and net profit $100,000 equal to $1.07 a common share. Dividend payments in 1946 were $1.50 a share plus 2% in stock. Dividends for first half of 1947 amounted to 80 cents a share.

Capital structure as of December 31, 1946: Notes payable to Bank $1,375,000, Common stock 219,846 shares outstanding. On June 3, 1947 company sold 25,000 shares of a new 4% cumulative preferred issue ($100 par) above $100 a share. Authorized issue is 50,000 shares. Proceeds will be used to retire bank loan and for addition to working capital.

Balance sheet as of December 31, 1946 showed total current assets of $6,755,352, total current liabilities $2,583,944, leaving net working capital of $4,171,408.

Company is developing new products and expanding production facilities.

Prospects for Nopco continue favorable.

Depression Dividend Plan to Augment Purchasing Power

Would you kindly give me your opinion as to what the attitude of businessmen and politicians might be toward the following proposal:

"In times of depression when there is substantial unemployment, at least five million, the Federal Reserve System should declare and pay a monthly 'machine dividend' or 'national dividend' to all of the residents of the United States, regardless of age, by validating a ration stamp, which would be exchangeable for currency at any bank, for the amount of the dividend. The Federal Reserve Banks would then redeem (buy) the ration stamps from the banks with the same fountain-pen money that they use to make open-market purchases of governmental securities in supporting the bond market. The amount of the dividend would be varied from month to month according to the amount of unemployment prevalent and general business conditions, allowing a very wide margin to avoid too high a dividend that might bring all factors of production into operation, inflating prices. These dividends, going to the masses of the people, who have a high propensity to consume, would immediately create a huge demand for the products of industry, and in addition would induce further investment. The cost to the government would be virtually nothing; the public debt would not be increased; it would cause little or no rise in prices because unused factors of production would rush in to fill the gap caused by the increased demand; it would not subsidize a segment of loafers because the dividend would never exceed ten dollars per month per person; it would yield a higher initial velocity than any other type of monetary distribution."

I hope that I have made myself clear. A stamped, return envelope is enclosed.

H.T.B., Cambridge, Mass.

We thank you for submitting your interesting plan to bolster the economy when the next depression sets in and there is substantial unemployment. We do not know what the attitude of businessmen and politicians would be to your plan, but the presentation of it here may evoke some opinion from our readers as to its merits or demerits. We suggest you write to your Senators and Congressmen and also present the plan to representative businessmen and get their reaction to it. Your idea of paying a "machine dividend" or "national dividend" is certainly something novel and it merits consideration from the heads of Government and business, as do all plans to combat unemployment and depression. Certainly no panacea was presented in the last depression and some new thinking will be required to work us out of the next one.

Flintkote Co.

Please report late earnings, dividend and outlook for Flintkote Co.

G.T., Cincinnati, Ohio

Net sales and profits of Flintkote Co. attained a peacetime record for the year ended April 20, 1947. Net sales amounted to $59,634,208 and net income to $5,320,599 equal to $4.16 a common share, compared with net sales of $39,549,899 and net income of $1,169,241 or $1.09 a common share for the corresponding period of the previous year.

Business was established in

Please turn to page 351)

The BUSINESS ANALYST

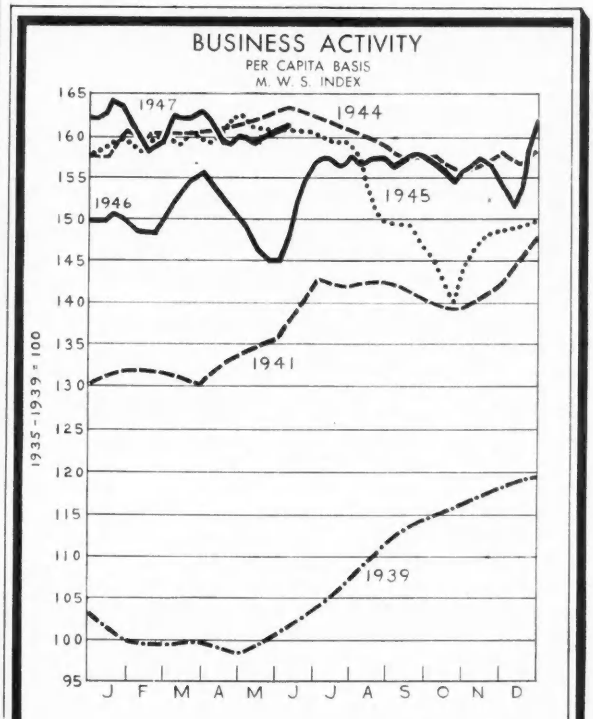
SUMMARY

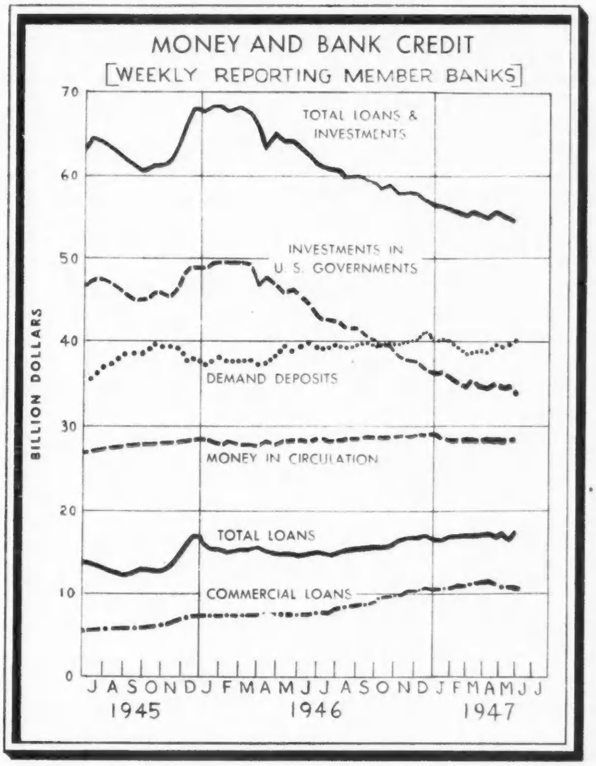
MONEY AND CREDIT—New corporate capital raised during first quarter nearly three times larger than in like period last year. Federal gross debt down $22 billion from $280 billion peak touched in February, 1946. Prices of foreign government external bonds in this market at lowest level in four years. Short sales negligible factor in stock market decline. Foreign sales of American securities also of minor influence.

TRADE—Retail sales of durable goods in April 38% above last year. Department store sales up 12%, with inventories plus outstanding unfilled orders back to normal pre-war relation to sales. Garment trade orders rebound sharply.

INDUSTRY—New orders booked by manufacturers during March were up 27% from last year. Business activity rises again to near-record level. May employment at new all-time high, with unemployment at lowest level of the current year. Administration's program to aid recovery of Europe will postpone depression here indefinitely.

COMMODITIES—New spring wheat crop bringing lower prices; but weather now unfavorable to corn and for soy bean planting. Imported copper now sells at same level as domestic. Hides and rubber recover along with most other staples.





Business Activity expanded more than 1% during the closing fortnight of May to a level within less than 1% of the all-time high touched during the last week of March. The overall physical volume of business here is now 13½% greater than a year ago at the end of the nine-weeks' coal strike. For the month of May, this publication's index of Business Activity rose fractionally to 177.6% of the 1935-9 average, a level 11.6% above the like month last year. On a per capita basis, our business index for May was 160.2% of the 1934-9 average, compared with a like figure for April and 146.4% in May, 1946.

* * *

The large margin of annual increase in business volume for April and May, coupled with higher prices, indicates that second quarter **Earnings** as a whole will compare favorably with profits reported for the second quarter of last year. From now on, however, the margin of annual increase will narrow, owing to rapid recovery last year following settlement of the coal strike.

* * *

The Nation's **Retail Stores** sold 15% more goods in April than during the like month last year, with sales of durable goods up 38% and nondurables 10%. The only group reporting a decline was jewelry, with sales 10% under last year. Department Store Sales in the fortnight ended May 31

(Please turn to following page)

Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
MILITARY EXPENDITURE (tf) $b	June 4	0.19	0.35	0.98	0.43
Cumulative from Mid-1940	June 4	355.1	354.9	337.0	14.3
FEDERAL GROSS DEBT—$b	June 4	257.3	257.3	270.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	June 4	40.1	39.9	39.4	24.3
Currency in Circulation	June 4	28.3	28.2	28.2	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	June 4	6.71	6.82	7.33	3.92
100 Other Cities—$b	June 4	9.83	9.70	8.08	5.57
INCOME PAYMENTS—$b (cd)	Mar.	14.61	13.47	13.20	8.11
Salaries & Wages (cd)	Mar.	9.27	9.17	8.36	5.56
Interest & Dividends (cd)	Mar.	1.47	0.56	1.39	0.55
Farm Marketing Income (ag)	Mar.	1.84	1.70	1.37	1.21
Includ'g Govt. Payments (ag)	Mar.	1.90	1.74	1.42	1.28
CIVILIAN EMPLOYMENT (cb) m	Apr.	56.7	56.1	54.1	52.6
Agricultural Employment (cb)	Apr.	7.8	7.2	8.2	8.9
Employees, Manufacturing (lb)	Apr.	15.4	15.5	14.0	13.8
Employees, Government (lb)	Apr.	5.4	5.4	5.7	4.6
UNEMPLOYMENT (cb) m	Apr.	2.4	2.3	2.3	3.4
FACTORY EMPLOYMENT (lb4)	Mar.	154	154	132	147
Durable Goods	Mar.	181	180	142	175
Non-Durable Goods	Mar.	133	133	124	123
FACTORY PAYROLLS (lb4)	Mar.	314	311	238	198
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Apr.	40.0	40.4	40.5	40.3
Hourly Wage (cents)	Apr.	118.6	118.0	105.8	78.1
Weekly Wage ($)	Apr.	47.33	47.72	42.88	31.79
PRICES—Wholesale (lb2)	May 31	147.4	146.9	111.1	92.2
Retail (cdlb)	Mar.	176.9	172.7	143.7	116.2
COST OF LIVING (lb3)	Apr.	156.1	156.3	131.1	110.2
Food	Apr.	188.0	189.5	141.7	113.1
Clothing	Apr.	84.6	184.3	154.5	113.8
Rent	Apr.	109.0	109.0	108.4	107.8
RETAIL TRADE $b					
Retail Store Sales (cd)	Apr.	8.81	8.75	7.71	4.72
Durable Goods	Apr.	1.98	1.86	1.43	1.14
Non-Durable Goods	Apr.	6.83	6.89	6.28	3.58
Dep't Store Sales (mrb)	Apr.	0.75	0.76	0.69	0.40
Retail Sales Credit, End Mo. (rb2)	Apr.	4.59	4.47	3.19	5.46
MANUFACTURERS'					
New Orders (cd2)—Total	Mar.	249	253	193	181
Durable Goods	Mar.	285	293	203	221
Non-Durable Goods	Mar.	227	228	188	157
Shipments (cd2)—Total	Mar.	288	290	197	184
Durable Goods	Mar.	312	311	183	223
Non-Durable Goods	Mar.	272	275	206	158
BUSINESS INVENTORIES, End Mo.					
Total (cd)—$b	Mar.	38.2	37.1	27.7	26.7
Manufacturers'	Mar.	21.6	21.2	16.8	15.2
Wholesalers'	Mar.	6.7	6.5	4.4	4.3
Retailers'	Mar.	9.9	9.4	6.5	7.2
Dept. Store Stocks (mrb)	Mar.	2.1	2.0	1.4	1.4

PRESENT POSITION AND OUTLOOK

(Continued from age 335)

were 13% above the like period last year, compared with a cumulative increase of only 11% for the year to date. Orders received by the **Garment Trade** have again soared to near-capacity, following the normal pre-Spring slump. Realizing that the much publicized price slump is not going to materialize, consumers and merchants are being forced back into the market.

* * *

Much of the reported slump in **Textiles** is merely a reversion to the pre-war seasonal slackening during the spring months. Textile mill payrolls in March were 33% above last year. For wool and worsted manufacturers the increase was 20%, and for makers of women's dresses 30%. New orders booked by manufacturers of textile products in March were 28% above last year.

* * *

Depression propaganda has worked people into such a jittery state of mind that every report of some **Post-War Readjustment** is magnified into a catastrophe. Sight of the favorable overall business picture is lost completely. Viewing National business conditions as a whole, we find that total business volume is still close to its all-time peak; civilian employment in the week ended May 10 was the greatest in our history; unemployment has dropped to the lowest level of the year; the backlog of unfilled orders held by manufacturers at the end of March was 29% larger than a year earlier.

* * *

New Capital raised through flotation of corporate securities during the first quarter totaled $673 million—nearly three times as much as for the first quarter of 1946.

* * *

According to the Engineering News Record, engineering **Construction** contracts awarded in May were 13% ahead of April and only 8% below May of last year. New capital raised for construction purposes raised in May was 12% above the like month last year. Of the six regions in the country only two, the Southern and Far Western, reported declines in construction contracts for May compared with May, 1946. The Middle West and the region West of the Mississippi reported increases of over 40%.

* * *

The Commerce Department reports that New **Construction Completed** during the month of May was valued at 15% above the like month last year, compared with a 33% increase for five months. To date, there is thus evidence of only a mild slackening — not a slump — in construction activity.

* * *

There are still **Shortages** of a number of products such as steel, automobiles, newsprint, plywood.

Production and Transportation

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—l—pc	May 31	161.2	160.9	145.0	141.8
(M. W. S.)—l—np	May 31	179.0	178.2	157.5	146.5
INDUSTRIAL PROD. (rb)—l—np	Apr.	187	190	165	174
Mining	Apr.	141	148	104	133
Durable Goods, Mfr.	Apr.	222	225	190	141
Non-Durable Goods, Mfr.	Apr.	173	176	164	141
CARLOADINGS—t—Total	May 31	830	891	627	833
Manufactures & Miscellaneous	May 31	361	386	321	379
Mdse. L. C. L.	May 31	105	120	108	156
Grain	May 31	60	65	59	43
ELEC. POWER Output (Kw.H.)m	May 31	4,429	4,663	3,741	3,267
SOFT COAL, Prod. (st) m	May 31	12.1	12.8	3.6	10.8
Cumulative from Jan. 1	May 31	264	252	186	446
Stocks, End Mo.	Mar.	57.7	49.5	58.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 31	5.0	5.0	4.7	4.1
Gasoline Stocks	May 31	96	98	94	88
Fuel Oil Stocks	May 31	45	44	44	94
Heating Oil Stocks	May 31	36	35	34	55
LUMBER, Prod. (bd. ft.) m	May 31	440	515	402	632
Stocks, End Mo. (bd. ft.) b	Mar.	4.4	4.3	4.0	12.6
STEEL INGOT PROD. (st.) m	May	7.33	7.04	4.07	6.96
Cumulative from Jan. 1	May	35.3	28.0	21.7	74.7
ENGINEERING CONSTRUCTION AWARDS (en) $m	June 5	121	72	182	94
Cumulative from Jan. 1	June 5	2,278	2,157	2,260	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 31	181	149	142	165
Cigarettes, Domestic Slaes—b	Apr.	27.5	26.3	25.5	17.1
Whiskey Production (tax gals.)	Apr.	17.1	19.3	12.5	11.8
Do., Domestic Sales	Apr.	4.4	4.5	5.3	8.1
Do., Stocks, End Month	Apr.	449	438	370	506
Machine Tool Shipments—m	Apr.	26.7	29.0	28.1	76.4

PRESENT POSITION AND OUTLOOK

For lack of **Ships**, low rate export cargo—such as cement, flour and automobiles—is piling up on the docks. Yet, despite the latter shortage, domestic Shipbuilding has almost ceased, with most yards now occupied mainly with repair work. March payrolls for American shipyards, despite wage increases, were 33% below last year. High costs, not lack of demand, are the cause. In England, where costs are much lower, ship tonnage under construction is above last year.

* * *

Prices of **Tires** are being reduced. In fact tires and crude rubber are now about the only items for which wholesale prices are lower than a year ago. In this instance, price drops arise from the circumstance that supply has overtaken demand. However, the tire industry is better prepared for this than in pre-war years; though wages of rubber plantation workers in the Far East are being cut to meet competition with our synthetic product.

* * *

The recent resurrection of charges that **Short Sales** are responsible for declines in the stock market are patently merely political demagogy. Between April 15 and May 15, a period during which common stock prices on the Stock Exchange fell an average of 10%, the short interest increased by only 296,000 shares—less than 1½% of total transactions. Short covering is often the main source of strength in a dull market.

ag—Agriculture Dep't. b—Billions. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't. Avge. Month 1939—100. cdlb—Commerce Dep't. (1935-9—100), using Labor Bureau and other data. en—Engineering News-Record. l—Seasonably adjusted Index 1935-9—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. lt—Long tons. m—Millions. mpt—At Mills, Publishers and In Transit. mrb—Magazine of Wall Street, using Federal Reserve Board data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge accounts. st—Short tons. t—Thousands. tf—Treasury and Reconstruction Finance Corp.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

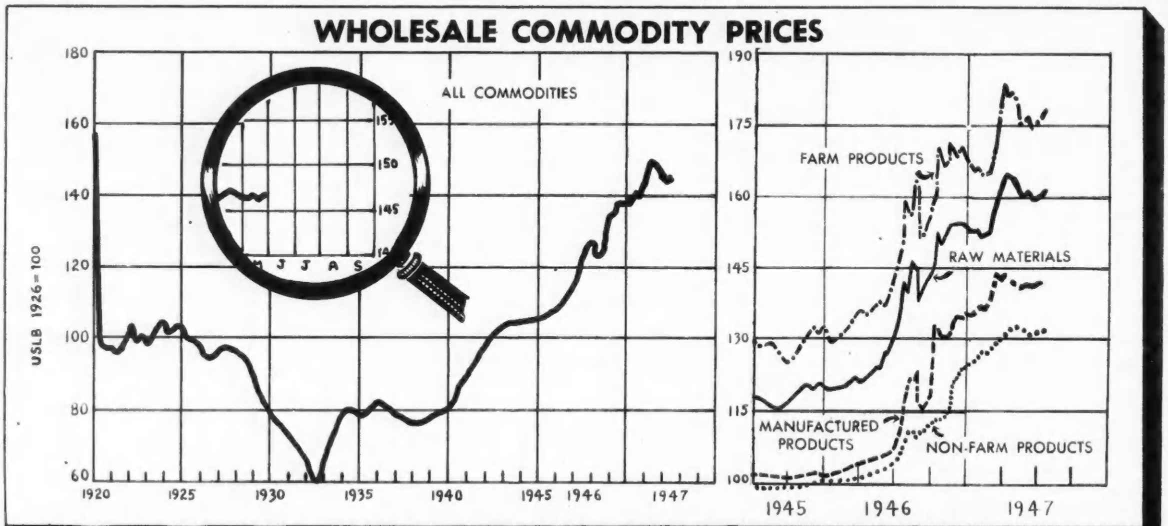
No. of Issues (1925 Close—100)	1947 Indexes High	1947 Indexes Low	May 29	June 6
304 COMBINED AVERAGE	148.8	111.5	120.0	118.7
4 Agricultural Implements	188.0	143.4	153.1	152.3
11 Aircraft (1927 Cl.—100)	167.1	108.2	116.1	112.9
6 Air Lines (1934 Cl.—100)	636.9	486.3	514.6	488.1
6 Amusement	146.0	107.9	113.9	112.9
14 Automobile Accessories	237.4	161.9	176.3	173.9
11 Automobiles	42.8	30.8	33.6	33.2
3 Baking (1926 Cl.—100)	24.1	18.9	19.0	19.6
3 Business Machines	301.6	230.8	251.1	250.6
2 Bus Lines (1926 Cl.—100)	175.0	116.1	127.9	121.6
4 Chemicals	245.6	223.8	232.6	233.4
2 Coal Mining	20.1	14.0	14.1	14.4
4 Communication	58.3	40.6	44.4	44.0
13 Construction	66.5	48.0	54.5	53.1
7 Containers	371.5	291.4	309.4	302.6
8 Copper & Brass	113.9	90.9	100.6	95.5
2 Dairy Products	69.7	55.9	55.9b	56.6
5 Department Stores	78.6	55.6	62.0	61.9
5 Drugs & Toilet Articles	223.2	149.4	156.4	154.4
2 Finance Companies	255.8	203.3	216.4	210.0
7 Food Brands	190.4	155.2	162.0	158.3
2 Food Stores	71.3	63.6	66.6	67.8
3 Furniture	94.3	66.1	70.5	71.6
3 Gold Mining	882.7	738.4	791.1	796.4

(Nov. 14, 1936, Cl.—100)	High	Low	May 29	June 6
100 HIGH PRICED STOCKS	89.87	72.58	76.66	76.48
100 LOW PRICED STOCKS	183.14	124.35	135.34	131.95
6 Investment Trusts	62.8	48.3	52.9	52.6
3 Liquor (1927 Cl.—100)	933.6	592.1	646.5	659.5
8 Machinery	159.4	123.1	132.4	133.0
3 Mail Order	129.5	84.2	96.9	97.7
3 Meat Packing	108.7	84.9	88.8	87.7
13 Metals, non-Ferrous	196.7	137.4	147.9	143.0
3 Paper	39.6	31.3	33.0	34.0
23 Petroleum	191.0	172.2	182.6	186.1
20 Public Utilities	134.4	104.3	110.5	107.1
5 Radio (1927 Cl.—100)	23.2	16.1	16.9	16.5
8 Railroad Equipment	80.6	55.8	62.3	59.6
23 Railroads	27.2	17.0	19.3	18.7
3 Realty	32.9	22.9	26.0	26.0
2 Shipbuilding	114.4	87.4	87.4c	93.7
3 Soft Drinks	559.0	462.9	525.2	526.1
13 Steel & Iron	121.1	90.7	97.2	95.3
3 Sugar	68.2	51.4	55.5	56.6
2 Sulphur	253.8	211.0	214.4	218.3
3 Textiles	128.5	93.8	100.6	103.5
3 Tires & Rubber	41.4	28.8	29.8	28.8c
6 Tobacco	87.4	65.2	69.2	70.1
2 Variety Stores	342.5	289.1	300.9	301.5
19 Unclassified (1946 Cl.—100)	108.5	83.7	89.7	89.4

New LOW since: b—1945; c—1944.

Trend of Commodities

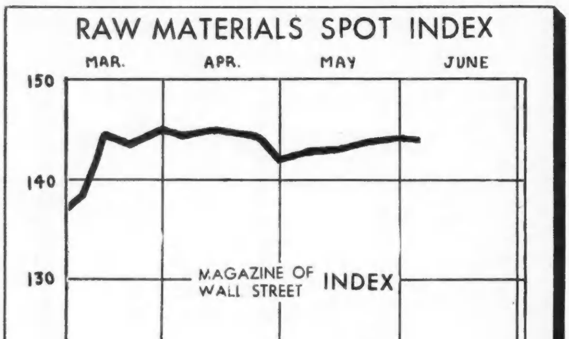
Spot and futures prices strengthened during the past fortnight, with exception of cash prices for the new wheat crop which were considerably lower than for the left-over from last season's harvest. Planting of corn and soy beans is being delayed by unfavorable weather conditions; but the Agriculture Dept. says that there has been no serious damage up to present writing. It is worth noting that the Agriculture Department's daily index of spot prices for seven leading farm products has recovered to within 1% of its post-war high touched last March. Foodstuffs, which had risen unconscionably in relation to farm products, have declined 14% from the March peak, while imported commodities are off 8%. Drought and floods in Europe and India, combined with shortages of fertilizer and farm machinery, have assured a foreign demand for every bushel and pound of grain and other foodstuffs we are able to export. For this reason, farm products prices are not likely to decline materially before next spring at the earliest; they may go higher. The Government has resumed purchases of both old and new crop wheat for export. In the eleven months since July, 1946, our grain exports have totaled 494 million bushels, of which wheat and flour equivalents amounted to 351 million. Wheat supplies in this country at the opening of the new crop year on July 1 will be down to 75 million bushels, the smallest carryover since 1918. Production this year, however, is expected to top last year by 250 million bushels. Owing mainly to higher prices, receipts from farm marketings in the first five months were 30% above last year.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August 1939, equal 100

	Date June 7	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	300.5	298.2	300.1	329.2	298.1	196.3	156.9
11 Import Commodities	271.0	274.7	279.7	291.5	286.8	171.9	157.5
17 Domestic Commodities	321.2	314.5	314.1	356.2	305.7	213.9	156.6

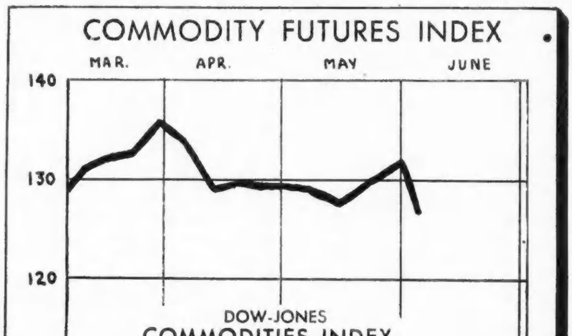
	Date June 7	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	351.9	342.5	339.0	342.7	312.2	253.1	163.9
12 Foodstuffs	361.4	352.2	353.3	410.4	360.6	222.9	169.2
16 Raw Industrials	261.3	263.0	265.2	278.8	258.2	178.3	148.2



14 Raw Materials, 1923-5 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1947	1946	1945	1943	1941	1939	1938	1937
High	144.9	128.8	95.8	92.9	85.7	78.3	65.8	93.8
Low	126.4	95.8	93.6	89.3	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1947	1946	1945	1943	1941	1939	1938	1937
High	136.55	127.07	106.41	96.57	84.60	64.67	54.95	82.44
Low	117.14	104.21	93.90	88.45	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

In a recent statement to a Senate subcommittee, Joseph L. Block, vice-president of Inland Steel Company, expressed a view that the shortage of sheet steel might not be eased until sometime in 1948. The industry is spending large sums for new facilities to bring supply and demand for the sheet into balance. Inland itself is allotting $18 million for this purpose.

Unification of Chesapeake & Ohio Railway and Pere Marquette, at last effective, makes the enlarged C & O the seventh in rank among the Nation's railroads from the angle of gross revenues, based on 1946 figures. Pere Marquette shareholders now exchanging their holdings for C & O stock will receive the July 1 dividend.

To carry through and again show the whole world what free America can do, all economic groups in this country must develop the same consideration of fair play and mutual respect for each other that we practice as individuals one to another, according to Joseph F. Abbott, president of the American Sugar Refining Company.

Despite general reports that the construction industry shows signs of bogging down, the management of American Radiator & Standard Sanitary Corporation has informed stockholders that based on first quarter figures, the only limits on full year sales should be capacity and ability to ship. Net sales of $41.5 million in the March quarter were the largest of any previous quarter.

C. E. Wilson, president of General Motors Corporation, reports that his company's expansion and modernization program is nearing completion, and that it will now have what it takes in the way of production facilities to do its part in establishing the postwar prosperity of the country, that is, granted a free flow of materials.

In reporting a new peacetime record production of $58.4 million during April, Gwilym A. Price, president of Westinghouse Electric Corporation, points out that the postwar plateau of good business still obviously continues for his concern. At the same time he does not overlook the possibility of a coming recession.

In advocating a national stockpile of not less than 1 million tons of copper, C. Donald Dallas, Chairman of Revere Copper & Brass, Inc., considers it shocking that we have no such pile of this essential material now. Mr. Dallas foresees a minimum annual copper demand for 2.6 million tons by 1970 and by that time he fears that we will have little left even in the ground.

The vacuum cleaner industry is confident that it will realize hopes of producing and selling more than 4 million units during the current year, compared with 2.29 million in 1946. To make the most of the opportunity, the Hoover Company is planning to work some departments three shifts per day. 30 million wired homes present an encouraging market, as about half the number have no cleaners.

Large scale export of Diesel-electric locomotives to foreign countries

within the next two years is predicted by Robert B. McColl, president of American Locomotive Company. About a dozen foreign buyers have already placed for several hundred of the Diesels, among the latest the Central Railroad of Brazil, ordering 12 of 1500 h.p.

Higher efficiency at lower operating costs is the main reason that railroads are turning towards the Diesel engines, according to Standard Oil Co. (N.J.) They cite the ICC as claiming that Diesels reduce fuel costs 45% in passenger service, 56% in freight and more than 75% in switching.

Proposal by Remington Rand, Inc. directors to split the common on a 2-1 basis in August is the latest of an increasing long list of similar actions. To attract wider public interest in the company was the main reason given. This concern also reports some uptrend in earnings since April 1, compared with relative period last year.

Shareholders in Chrysler Corporation have been getting good news in batches. A new two year contract with the unions, first quarter net earnings of $21.5 million, working capital increased by $9.6 million, a two for one stock split and restoration of the dividend to prewar rates combined to hearten stockholders.

Optimism is running strong with shareholders in Dow Chemical Company, too. With net earnings running almost double those of the previous year, skeptics over the early peacetime prospects of this aggressive concern have been put to rout. Now comes a four for one proposed split and an upping of the dividend rate.

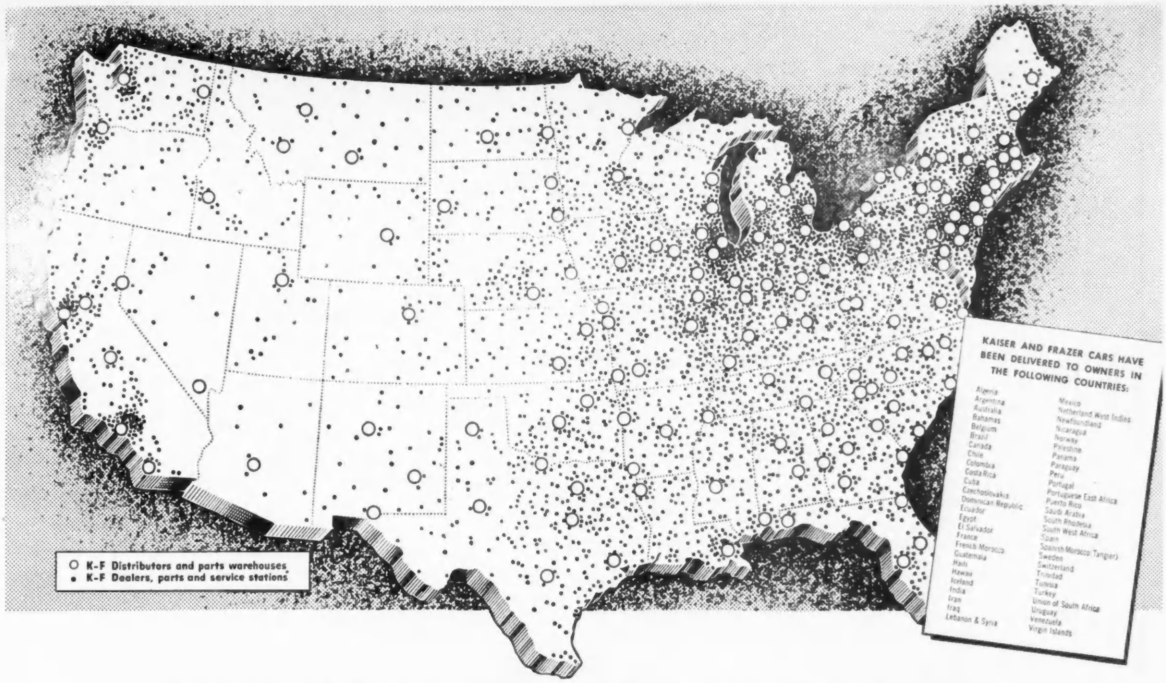
The Bituminous Coal Institute has some interesting comments on the initial experiments conducted by the Alabama Power, in collaboration with the Bureau of Mines, to test the possibilities of underground gasification of coal. While flaws in the process naturaly developed, it was found that the coal burned clean, leaving little coke, and that the air blower functioned surprisingly well.

How raising of wages is secondary to other factors in raising living standards was recently shown in an interesting manner by Professor F. R. Fairchild of Yale University. In 1908 an average employee in the rubber industry would have had to work four hours to pay for using four tires for tires for 23 miles. Some 30 years later the same amount of work would enable him to run the tires for 2200 miles. Yet his wages had risen only 120%. Technology and high production did the trick.

The Western Union Telegraph Company has just reported gross revenues during April at the highest level for any month in its history, caused largely by the telephone strike. Net income of $2.6million compared with a deficit of $405,807 in April a year ago. In the current Magazine of Wall Street, the communication companies are discussed on page 319.

Speaking of tires, the Rubber Manufacturers Association are using strong pressure upon Congress to terminate the Wartime Excise Tax on rubber tires and tubes. The industry quite rightly claims that these items are a necessity to farmers and workers, rather than a luxury, so that the tax seems definitely unsound in principle. This tax burden amounts to about $159 million annually.

With competition now strongly expressive in the radio industry, output of newer products may sustain earnings for some of the larger and more aggressive concerns. For example, an estimated 1947 demand for 500,000 television sets is far beyond present capacity. And in the FM radio field, a demand for 2 million sets seems unlikely to be met by a wide margin.



47,823 PROUD OWNERS of KAISER and FRAZER CARS!

WILLOW RUN HAS BUILT MORE THAN 50,000!

11,232 Cars Were Shipped During May—And We Are Now Producing More Than 12,000 Per Month!

THE PUBLIC *likes* the KAISER and the FRAZER! This has been proved by its purchase of more than *100 million dollars* worth of these ultra-modern, 100% postwar automobiles.

Willow Run has produced more than 50,000 automobiles. And our dealers have already delivered 47,823 KAISERS and FRAZERS to proud new owners. Today, on showroom floors, there is less than one car for each of our more than 4,000 dealers. These sensational production and sales totals did not "just happen"! Despite the same hampering material shortages which afflict the rest of the automobile industry, KAISER-FRAZER production has reached a rate of more than 12,000 cars a month!

These cars have proved their mettle in millions of miles of extraordinary performance. Their styling and design have set the pace for the industry. They give a *ride* that no other car can equal! And their owners have available *everywhere* the experienced, dependable service of one of the four largest dealer organizations in the world.

Drive either of these cars, and compare the ride with the best you have ever known! You will discover why KAISER and FRAZER owners are the finest salesmen we have. Talk with your nearest K-F dealer today. Our present production rate makes it likely that he can give you delivery on a KAISER or a FRAZER much sooner than you think.

KAISER-FRAZER CORPORATION

WILLOW RUN, MICHIGAN

This story of the first year's production at Willow Run refutes those who, in the midst of postwar confusion, said, "It can't be done."

The Big Four in Rubber

(*Continued from page* 325)

around 500,000 tons, the rubber manufacturers at long last can enforce a ceiling upon prices for the imported crude, thus avoiding unnecessary stockpiling and assuring better long range control of costs. The Government has a stockpile now of less than 200,000 tons of crude, which it is offering at 23½ cents per pound, and if it cannot realize this price is content to simply hold it for possible future emergencies. But until a decision is reached upon the important question of how much of our capacity for producing synthetic rubber must be will continue to face uncertainties utilized by manufacturers, they overoperating programs.

As for profit margins in near term months, the big question looming up is to what extent the prospect of lower prices for both natural and synthetic raw materials may offset a trend towards lower volume, increased wage costs (recently boosted 11½ cents per hour) and pressure for lower prices for finished goods. While B. F. Goodrich Co. has announced a cut of about 10% on passenger tires and tubes, others of the Big Four will probably follow their example. Several of the large mail order houses and department stores have marked down tires prices impressively at their end, so that it is going to be increasingly difficult for reluctant manufacturers to hold the line. While competition has traditionally held profit margins of the rubber manufacturers to rather modest dimensions, those on sales of large quantities of tires to automobile manufacturers are naturally narrower than to replacement dealers, or those involving sales of numerous rubber specialties.

Earnings May Decline

All said, some recession in sales and net earnings should occasion no surprise, if full year results for the Big Four prove to be less satisfactory than their splendid showings for 1946. Compared with pre-war, a more than threefold increase in the practice of recapping tires will to some extent affect sales, although this in turn opens a new market for the synthetic "Camelback" covering produced by the manufactures of tires. Expansion in the use of heavy tires in the farm equipment field, too, will be an en- that variations in set-ups, output couraging factor. It is apparent and policies will cause divergent earnings trends for the four important concerns under review. For this reason we have provided brief analyses of each one in the following pages. The charts accompanying these analyses are well worth studying as they contain a tremendous amount of information.

Securities Disturbing Investors

(*Continued from page* 331)

speculative opportunity at present price levels, its status is not particularly attractive.

Grand Union Company

Despite encouraging reports for the fiscal year ended March 29, 1947 and for April, shares of this sizable food chain store organization have recovered only nominally from their recent low point around 31. In comparison

with last year's peak level of 54½ this reveals quite a dip percentagewise. On the other hand, a decline from a high of 41 earlier in 1947 has been about in line with the general course of the stock market, and in itself should arouse no worry for shareholders. That the company is continuing to progress thus far in its current fiscal year is shown by sales of $7.1 million for April, up about 35% compared with the same month last year. Grand Union operates more than 320 retail stores in the North Atlantic States, while sales to homes by wagon are effected in a total of 25 States. Though the company has consistently kept in the black, arrears on the preferred and insufficient earnings for the common precluded dividends for the equities until 1944. After recapitalization in 1938, outstanding capital was confined to 222,-507 shares of common only, on which from $1.73 to $3.47 per share was earned during the seven year period. Financially the company is in sound shape and the latest quarterly dividend of 50 cents per share seems conservative. But the shares have a distinct speculative tinge, without much apparent sponsorship.

Zonite Products Corporation

Listed last on the New York Stock Exchange, and among the latest to register a new low price for 1947, are the shares of this concern. Recently selling at 5⅝, compared with a 1947 high around 10⅜ and a top price of 14¾ in the previous year, the over-all downtrend has stirred up anxious enquiries. Accountable partially for the dip has been the failure of the directors to take any action as to dividends for the current quarter. This alone would serve to arouse pessimism, for in the five preceding quarters 15 cents per share was distributed in each period. As first quarter 1947 net earnings were reported at 23 cents per share and the company, though relatively small, is in sound financial shape—some shareholders undoubtedly were surprised when no dividend was forthcoming. Fact seems to be that the markets for proprietary goods are experiencing temporary adjustments that invite caution by some managements, although they hope that full year's sales will show up on about a par with last year. But profit margins are tending to narrow under the impact of rising costs and heightened promotional activities. Zonite's well established "Forhan's Toothpaste," Larvex and other items have brought fairly stable profits for a good many years and should continue to do so over the longer term. The small size of the company, though, and the low price level for its shares, in our opinion detracts from the speculative appeal for the shares, though present holders might find it wise to average their holdings not far below current prices.

Steel Prospects Into The Fall

(*Continued from qage* 311)

presumably normal years just jrior to the war, 1938, 1939 and 1940, sales averaged $1.4 billion and inventories averaged slightly less than $232 million, or a ratio of 16.6 per cent. Last year when sales were adversely affected by labor trouble in the early months and inventory was being accumulated, the ratio rose to 27 per cent. Chrysler inventories at the end of last year were 12.2 per cent of sales amounting to $870 million. This compared with an average ratio of 10.1 per cent in the three pre-war normal years when sales averaged $529 million and inventories showed an average of $53.6 million. In the first quarter this year Chrysler's inventory ratio was lower than usual, however, declining to 7.2 per cent of sales which reached an annual rate of slightly less than $1.3 billion.

If complete statistics were available, it is estimated that inventories of raw materials would be 60 to 75 per cent higher in relation to sales than during the war and 25 to 30 per cent greater than in the years immediately preceding our entry into hostilities. An analysis of this factor suggests that although inventories may be considerably unbalanced, supplies of many steel products must have become plentiful. According to trade authorities, the shortage is greatest in steel sheets. These are required not only by motor car manufacturers but by producers of numerous household appliances. Now that dealers' stocks of household appliances have been pretty well filled, it seems reasonable to think that manufacturers may begin reducing orders for steel sheets.

New Processes Increase Capacity

Undoubtedly the experience of the industry twenty-seven years ago has been a major influence in warning against expansion. Some new facilities are under construction and modernization is proceeding in other plants in order to improve efficiency. No large construction program is contemplated in the steel industry, however, until there is a demonstrated need of enlarged capacity. Management seems satisfied that production can be increased if needed through technological progress.

Two new processes are being closely studied in efforts to cut costs and increase output. One of these is a system of "pressure blowing" for blast furnaces developed by Arthur D. Little, Inc., and successfully tested by Republic Steel. This process is designed to increase pig iron production without enlarging furnace capacity.

Only slight modification of furnaces is required to boost output as much as 20 per cent, it is said. At the same time substantial economies in coke consumption are achieved. In view of the fact that a large furnace consumes as much as 1,000 tons of coke daily, the saving of 12 per cent or more is important.

The other method of attaining larger output is through the use of oxygen in open hearths. The use of oxygen contributes to a substantial saving in time required in melting ore and scrap iron. This saving has become increasingly important as a result of recent wage advances. Bethlehem Steel and Air Reduction are conducting a thorough test of this process at a new plant being constructed in Johnstown, Penna.

These recent discoveries apparently offer the means of enlarging capacity for pig iron and steel without a corresponding expansion in plant facilities and capital investments.

Aside from the reasons already mentioned for a possible contraction in steel operations, there is the increasing scarcity of dollar exchange. Unless larger funds are made available for overseas consumers, exports of steel (as well as other essential materials) may be retarded. The volume of steel products going into foreign markets, although not large in relation to total production, has been substantial for some time. The British have been negotiating for tonnage for shipment in the com-

ing twelve months, but trade authorities have expressed some doubt over ability of the British to pay for large quantities of steel even if they should become available later in the year. About half of the British loan of $3,750 million has been used and Washington observers doubt that a new loan could be obtained without considerable political controversy.

Except for a few smaller nations, the rest of the world lacks resources for payment of American products. Events in eastern Europe have enhanced the need for supplies from this country and have strengthened prospects for extension of credit. It is possible, therefore, that Congress will make available funds with which to purchase steel and other essential materials for shipment to European nations committed to the policy of resisting Communism.

American and British authorities in charge of occupation forces in Germany are taking steps to enlarge steel production in western Germany. In due course this new source may reduce Europe's dependency on American steel. Present plans call for permission to produce 12 million tons annually in western Germany for domestic use. This would be more than double the quota of less than 6 million tons for all of Germany fixed by the Allied Control Council last year. This tonnage also would be about half the pre-war volume in Germany.

Another minor factor contributing to reduced output is obsolescence of high cost plants. As demand slackens and producers are compelled to lower prices, it seems apparent that antiquated producing facilities will be forced to suspend. Labor has become such a factor in cost that managements find it more practical to close old plants and to step up operations in mills constructed during the war. Before the wage increase in April, steel workers were receiving on the average $1.33 an hour as compared with 71.7 cents an hour in 1936, an increase of 85.5 per cent. In view of the fact that a considerable part of steel capacity still is relatively high cost, output may be quickly affected by any moderate price reduction.

Finally, the possibility of a suspension of soft coal mining presents a threat to the steel industry. Regardless of labor legislation, it is hazardous to forecast what John L. Lewis and the United Mine Workers may decide to do when government control over bituminous mines comes to an end June 30. A prolonged work stoppage undoubtedly would face a lull in steel operations. As a matter of fact, the threat of a coal strike has tended to stimulate expansion of inventories of steel and other essential materials. Accordingly, a favorable settlement presumably would contribute to slackening in demand and bring nearer a drop in operations. If a strike should be avoided, no serious contraction seems likely in steel and the operating rate may not fall below 80 to 85 per cent over the foreseeable future.

The Prospects For Our Natural Resource Industries

(*Continued from page 309*)

most prominent foreign producer, there are large copper deposits in every continent which should be available, at reasonable prices.

New Lead Discoveries Abroad

Domestic supplies of lead and zinc are still large, but heavy depletion during the war of the low-cost ore has now placed the industry in competition with imports from foreign countries having more abundant supplies. As with iron ore, the "cream" here has been skimmed off. Additional new deposits of lead have been located in Australia, Yugoslavia, Argentina, Canada, and Peru, and zinc deposits in Mexico, Australia, Canada, Newfoundland, and Peru.

American companies owning foreign reserves of lead and zinc include, in addition to the three big copper producers, Bunker Hill & Sullivan in Canada, Cerro de Pasco in Peru, Eagle Picher in Mexico, St. Joseph Lead in Argentina, and American Smelting in Mexico and elsewhere.

Aside from the base metals, this country is deficient in reserves of a number of other minerals needed as alloys and for diverse other purposes. For a single example, although the U. S. probably leads the world in the continued progress in development of jet propulsion for aircraft, such engines require special steels capable of withstanding the terrific heat generated. Some of these alloys we mine domestically, but for others we are dependent upon imports.

Minerals We Lack

Space permits only brief mention of these various other minerals. Some, for which we have to import half or more of the U. S. consumption, are antimony from Bolivia, China, and Mexico; chromite from Russia, Turkey, South Africa, Rhodesia, and the Philippines; cobalt from the Belgian Congo, Rhodesia, and Burma; manganese from Russia, India, South Africa, Gold Coast, Cuba, and Brazil; mercury from Italy and Spain; nickel from Canada; platinum from Canada, Russia, and South Africa; tin from the Malay States, Netherland Indies, Bolivia, and Thailand; titanium ore (ilmenite) from India and Norway.

We must import most of such non-metallic minerals as asbestos from Canada, Rhodesia, and South Africa; graphite from Madagascar, Ceylon, and Germany; industrial diamonds from the Belgian Congo, Gold Coast, and South Africa; mica from India; and natural nitrates from Chile.

We have plenty of sulphur, salt, gypsum, and phosphate rock, and produce half or more of our requirements of such essential metals as aluminum, magnesium, tungsten, vanadium, and molybdenum, while large foreign supplies are available to whatever extent needed.

Some radium is mined here but we lack large reserves of the fissionable metals that are the basis of atomic power. There are known to be extensive deposits of uraniferous ore and thorium-bearing sands in Canada, Belgian Congo, and, reputedly, in Russia, while it is reasonable to expect that deposits elsewhere will be discovered in the course of time.

In a comprehensive survey entitled "America's Needs and Resources" by J. Frederic Dewhurst and associates, an 800- page volume just published by the Twentieth Century Fund of New York, it is emphasized that the development of the American economy has been determined in large measure by the natural resources at our disposal and by our ability to obtain from them the raw materials that are the foundation of our economic activity. After a detailed examination of each individual mineral of commercial importance, and the depletion forcing a turn to lower grades at higher production costs, the summary includes the following suggestions:

"Adequate supplies to meet all future requirements may be as-

sured by the following lines of action. First, there should be an intensive research program aimed at developing new techniques for utilizing more abundant reserves at low cost. It may be possible through changes in processes to provide basic materials from low-grade resources at costs equal to or in a few cases even below those from high-grade resources, especially if various areas and types of materials are tapped. Second, a policy of freely relying on imports to the extent that they are necessary to compensate for deficiencies in domestic sources is needed. Third, in the case of minerals and other durable materials that can be stored for long periods of time without deterioration and that would be vital in case of war, we could adopt a stockpiling program. Most of the alloying metals that were in precarious supply during our participation in the war can be stock-piled for long periods of time without any appreciable cost except the carrying charge on the investment."

Secretary of Commerce Harriman showed how the second point above could be put into immediate application in his recent article in the Saturday Evening Post entitled "We Must Import to Live." After citing the prodigal fury with which we have depleted our natural resources, and President Truman's warning in his last annual message (repeated in Kansas City this month) that we are becoming a "have-not nation," Mr. Harriman not only stated the problem of obtaining an increasing portion of our raw materials abroad, but then offered an answer to that problem, as follows:

"If we simply faced the prospect of a growing deficit of raw-material resources, without anything to compensate for it, our situation would be serious indeed. Radical measures of planning, of conservation, of far-reaching economic control, would then be forced upon us . . .

"Fortunately, however, there is an aspect of our situation which can more than compensate for the "have-not" trend, if we will but take advantage of it. We are already the creditor nation of the world, and we are still the primary source to which the world can look for capital to finance sorely needed projects . . .

"On the one hand, we can take payment of the world's debts to us in the raw materials and other items which we are beginning so

urgently to need. On the other hand, however, our new creditor position imposes upon us heavy and unfamiliar responsibilities...

"Department of Commerce experts estimate that in 1947 foreign countries may take over $16,000,000,000 of American goods and services, while this country will import only about $9,000,000,000 of foreign goods and services . . .

"We have not even begun to see the inevitable effect upon our import totals, either of the demands created for special raw materials by the new technology or of the depletion of our own natural resources. As yet, we have not even roughed out a national conservation policy for the wealth in the American earth. But it is easy to see that this aspect of our national situation must also help substantially to close the gap between exports and imports."

There should be reassurance in the fact that most foreign countries are just as anxious to sell us their raw materials, as we are to obtain such materials. As Foreign Secretary Bevin said, Great Britain must "dig for dollars" as she dug for victory.

Expanding trade in raw materials depends upon a state of world peace and cordial relations. Economic warfare, as well as political and military warfare, must be guarded against.

Who Foots The Bill?

(*Continued from page* 329)

security portfolio thus encouraging a long term growth in stockholders' equity.

Casualty-Surety Premiums at Record High

1946 was a record year in premium volume for the casualty and surety insurance companies, too, with an increase of 20% above 1945. Here, also, higher rates were largely responsible. On average, however, operations were less productive of profit than were those of 1945. Automobile losses, already referred to, were the principal reason for reduced income. Workmen's compensation just about broke even but would not continue to do so with a marked recession in business in the second half of 1947. Companies concentrating mostly on fidelity and surety lines will probably fare best in the coming year.

Portfolios of the casualty-surety insurance companies tend to be more conservative than those of the fire insurance companies. Government bonds are a large part of their holdings while the other items are secure income producing situations of a conservative nature. This policy is likely to continue. While these companies have a large volume of invested funds, the dollar gains per share in portfolio wil be modest as will income growth.

Market Action

Fire Insurance Stocks held up better than the market in 1946 but have since lagged behind in general market improvement from the October lows because of the heavy bills they have had to foot for fire and motor vehicle losses. Their appeal is mostly long term, and for income.

Casualty-surety stocks reached a 16-year high peak early in 1946 but their loss in price kept pace with the general market. In any recession from here on they are likely to be laggard since their underwritings profit would decline. The accompanying table lists pertinent statistical data on the major fire and casualty-surety companies.

Mid-Year Re-Appraisals and Forecasts of Public Utilities

(*Continued from page* 318)

their maximum claim. The would-be speculator, who is willing patiently to hold four or five of these issues for the period of time necessary to complete integration proceedings, may anticipate at least a moderate profit, and the total investment will "carry itself" (yield perhaps 3-4%) if he includes both dividend and non-dividend payers. Among the former are the senior preferred stocks of American & Foreign Power, American Power & Light, Commonwealth & Southern, Electric Power & Light, New England Public Service, Niagara Hudson Power and Northern States Power. Non-dividend payers include Consolidated Electric & Gas, Electric Power & Light 2nd preferred, International Hydro-Electric, Long Island Lighting, New England Public Service plain preferred, North American Light & Power, North West Utilities (prior lien and preferred), Portland Electric Power prior preferred, Standard Gas & Electric prior preferred, Standard Power & Light and Niagara Hudson 2nd preferred.

Holding company common stocks may be divided into four groups: (1) Stocks of a small group of companies which have practically completed their integration program to conform to the Holding Company Act (Columbia Gas & Electric, Central & South West, New England Gas & Electric, and New England Electric). (2) Dividend paying stocks of companies still in process of integration, such as American Gas & Electric, American Light & Traction, General Public Utilities, Middle West, North American Co., Philadelphia Co., Public Service of N. J., United Gas Improvement and United Light & Railways. (3) Non-dividend paying holding company stocks (American Power & Light, American Water Works, Cities Service, Electric Bond & Share, Electric Power & Light and Engineers Public Service. Among the lower priced issues are Commonwealth & Southern, International Hydro-Electric A, New England Public Service, Niagara Hudson, North American Light & Power, Northern New England, United Corp., Standard Gas & Electric and Long Island Lighting. (4) A highly speculative group of low-priced issues including preferred "stubs" (claims for call premiums), residual liquidating shares and warrants. Among the stubs are those of Electric Bond & Share and Engineers Public Service. Residual shares (of companies which have already distributed their principal holdings) include National Power & Light, Midland Realization, Midland Utilities, and Ogden Corp. Among the warrants may be mentioned Electric Power & Light, United Corp. and American & Foreign Power (others such as Commonwealth & Southern and American & Foreign Power may be wiped out).

It should be emphasized that the purchase of holding company securities is generally a hazardous business though the possibilities for speculative appreciation in this group are probably greater than in the rank and file of operating stocks. It would be advisable to spread funds over a number of issues, including some that will give enough average income to permit carrying the whole investment as long as necessary—perhaps three of four years—to obtain the final results of consummation of the integration programs.

New Profit Potentials for Communication Companies

(*Continued from page 321*)

as never before in its long history. It envisages the assurance of "push button" telegraphy from point of origin to final destination, tied in with newly developed methods of transmission, message handling and delivery. It is interesting to note a few details of the proposed program and how validly the plans arouse hopes for improved earnings over the medium term.

With an eye to eventual and large scale savings in maintenance costs so burdensome under Western Union's long established practice of transmitting telegrams over pole lines criss-crossing the country, the company, like A.T.&T., proposes fairly rapid substitution of radio beam telegraphy. Supplementing an experimental line now in use between New York and Philadelphia, a "triangle" system is now being constructed to connect New York, Washington and Pittsburgh. By this micro wave or high frequency utilization, as many as 2000 messages in both directions can be sent simultaneously and with ordinary typewriter transcription involved at each end. To extend this system a step further, the company has acquired land and the necessary equipment for a series of the relay towers needed for a route between New York and Chicago. By degrees, key switching points will be established in selected areas of the country, all connected by radio beam. Ultimately, many millions of messages will flash through the air to these various key points for switching to less strategic destination via ordinary wire lines, or for trans-ocean points by cable or radio. Users of private teleprinting systems, such as are now used by numerous large concerns in industrial and banking fields, as well as by the Government, will thus be able to push button in their own premises and correspond back and forth within the space of a few minutes, contacting similarly equipped concerns at distant spots, or facilitating rapid transmission of one way messages. The improvements described should produce a marked reduction in maintenance costs, enable handling high volume traffic with speed and establish operations more completely upon an automatic basis.

In the wake of transmission of pictures and facsimiles by wire or radio has come another device delevoped by Western Union and successfully used in several cities since just before Pearl Harbor. Called "Telfax," this unit is installed in hotel lobbies or other key points and permits any would be sender of a message to insert it through a slot. The machine automatically wraps the message around a cylinder, where an electric eye scans it and delivers an exact reproduction to a receiving machine by wire. Radio equipped cars, too, supplied with special equipment may eventually cruise around selected areas, and upon receipt of a message speed to address given, thus lowering delivery costs and assuring prompter delivery. As all of Western Union's new plans are far beyond the dream stage and their practical application has been assured, there is good reason to presume that the company's former status as a fairly consistent dividend payer may be gradually restored. In recognition of the company's current problems and aims, the

Government has been rather liberal in allowing increased deductions from operating income for depreciation of facilities that may become obsolete sooner than expected as the modernization plan develops. This is significant in that Western Union hopes to rely upon cash accumulating from depreciation reserves, in addition to current cash resources, to finance its mechanization program without recourse to major outside financing. The company's dominant position in the domestic field, controlling all incoming and outgoing business destined for overseas, and its close relations with A.T.&T., Radio Corporation of America and other international operators, should assure satisfactory volume. As for potentials involving net profits, Science seems ready to lend a helping hand and at an opportune moment.

Suppliers of Equipment

A rather widespread replacement of communications equipment in all the various fields enhance prospects for the manufacturers. These components of the industry, as well as the service units, have experienced a profit squeeze due to mounting costs. Western Electric, naturally enough, enjoys a basic advantage in supplying the major needs of A.T.&T., and this its best customer will see to it that adequate profits accrue to its chief source of supply Hence moderate lowering of the last dividend by Western Electric Co. is no signal that recent strikes and rising costs will adversely affect its picture indefinitely. The Stromberg Carlson Company, as producer of much telephone equipment bought by the independent concerns, like United Telephone Co. and myriad smaller operators, has for a long time enjoyed reasonable earnings stability. Of later years it has expanded broadly into the field of home radio sets, a highly competitive arena that shows signs of near term saturation. On the other hand its acquisition of patent privileges for automatic switchboard dialing, previously mentioned, may assist to stabilize volume and profits.

Summing up, the communications industry in nearly every division seems to be spearheading the worldwide trend for modernization and is well on the way towards definite accomplishment. That these efforts will prove constructive to their sponsors in the race to secure fair profits is a warrantable guess, and that the entire economy may follow their example is the hope for prolonged general prosperity. Science is strongly in the saddle so we have emphasized it in this article leaving financial details to the accompanying table.

Russia's Changing Relation to Satellite Countries

(Continued from page

pluses. There has also been a tendency to look more and more to Czechoslovakia, Poland and even to Hungary, for industrial goods that Germany once supplied and that Russia will be unable to provide for some time.

In this connection, an enlightening dispatch was sent a few weeks ago by Mr. M. L. Hoffman, the New York Times correspondent then in Geneva. Mr. Hoffman reported that important negotiations had been conducted between Czechoslovakia and Poland. The Czech and Polish industrialization programs were to be coordinated, with special attention to building up new capital industries that would serve the entire Eastern European area. This is significant. It seems that the Russians are giving up the idea of integrating Eastern Europe within their economy. Instead, they may be favoring the organization of Eastern Europe as an independent economic area. It seems that neither the Russians nor the Eastern European puppet governments are willing—in view of the opposition at home—to risk a further fall in the standard of living which would be inevitable if Eastern Europe were to integrate her future planning with the Russians.

More Trade With the West

Hence, the Russians do not place any obstacles in the way of the expansion of trade of Eastern Europe with the Western world, on the theory that the faster the rehabilitation, the sooner will there be real surpluses of goods for Russia to absorb. Eastern Europe is, therefore, quite anxious to trade with the Western World. She is even more anxious to get Western loans and is apparently willing to talk turkey about the matters affecting private trading and foreign investments. There may be loud protestations on the surface from the communist-minded government representatives, but any expansion of trade with the West is welcomed by the strong non-communist elements in all Eastern European countries. And as Mr. Hoffman remarks, "through expansion of her trade with Eastern Europe, the United States could obtain a sizeable influence in the countries living under the shadow of the Soviet giant."

Poland and Czechoslovakia have been particularly anxious to obtain loans from the West, but so far they have not been very successful. Poland obtained two loans aggregating $90 million, and American credits to Czechoslovakia come to about $31 million. Negotiation for a $50 million loan from the Export-Import Bank and $40 million surplus property credits were suspended when Secretary Byrnes became irritated by unprovoked Czech communist attacks. Hungary received about $37 million of American money, but the last two loans were suspended. Rumania is reported to have obtained $7 million from the Chase National Bank against gold deposited in Switzerland. The credit is to be raised to about $50 million.

Rehabilitation Programs

All Eastern European countries have adopted comprehensive rehabilitation programs, parts of which may be sound and well-intentioned, and parts of which are pure boot-strap-lifting and opportunity-creating for the maintenance of government dictatorship over every phase of their internal affairs.

In **Czechoslovakia, a two-year plan** was adopted last Fall, chiefly at Communist insistence. It proposes to raise production 10 per cent above pre-war volume, and calls for investments of about $1.3 billion. It concentrates on the expansion of the output of capital goods and transportation equipment, and on rural electrification projects. It resembles the British one-year plan rather than the Russian prototype.

Poland's four-year plan involves an investment of about $3.3 billion. It proposes to raise the national production 20 per cent above the pre-war by the end of the four-year period. It again concentrates on the output of capital goods, which are to be increased 150 per cent above pre-war, on the rebuilding of communications and on rural electrification. The Government hopes to develop trade

with the United States to the amount of $150 million each way, as compared with the pre-war trade of $25 million each way.

The Bulgarian two-year plan concentrates principally on rural electrification and on mechanization of agriculture. Agricultural output is to be increased by about 30 per cent by 1948.

The Hungarian three-year plan is concerned chiefly with the improvement of agricultural production through soil improvement, mechanization and rural electrification. Heavy industries and mining (including the sinking of new oil wells) is also to be encouraged.

By far the most radical and far-reaching is the **Yugoslav five-year plan.** Its cost is put at $5.6 billion. Nearly half of the amount is to be spent for developing industries; industrial level is to be raised about five times from 1939. Electric production is to be increased four-fold chiefly as a help to agriculture, the production of which is to be increased 150 per cent. Extensive mechanization of farm operations is also planned and state tractor stations have already been organized with tractors supplied by the UNRRA.

Answers to Inquiries

(Continued from page 334)

1901. Company produces various asphalt and asbestos-cement roofing and siding products, paperboard, boxboard and other paper products, composition tile produces, rubber compounds, felt, timber and certain petroleum products, etc.

Capitalization consists of 98,000 shares of $4 cumulative preferred and 1,183,921 shares of common stock outstanding. Balance sheet as of December 31, 1946 listed total current assets $23,455,097, total current liabilities $7,505,048, net current assets $15,950,049.

Dividends paid in 1946 amounted to $1.25 a common share and 50 cents a share was paid in the first half of 1947.

Flintkote is experiencing an unprecedented demand for its varied line of building materials for industrial maintenance and new construction, paper boxes and containers, etc. and earnings outlook for the current year continues bright.

Parker Pen Co.

The fountain pen industry is experiencing intensified competition and there

is some sharp price cutting among manufacturers of ball point pens. I wonder how this affects Parker Pen Co. Please advise late earnings and prospects.

C.H., Toronto, Canada

Net earnings of Parker Pen Co. for the year ended February 28, 1947 after taxes and all charges were $4,173,974, equal to $11.03 a common share compared with $2,331,683 or $6.14 a share in the previous year. This shows an increase of 79%. The earnings figure includes those of the company's wholly owned subsidiary in Canada but not $133,000 in earnings of its wholly owned subsidiary in the British Isles as exchange regulations prevent the transfer of such funds.

Unlike most pen makers, Parker did not enter the ball point pen manufacturing race. The president of the company recently stated "No, we are still abstainers. A year or so ago our reasons for staying out were not too clear to a lot of people, but if you look around now you can see why."

Asked about future outlook, Mr. K. Parker said "It's hard to make prognostications about our business. It's unlike most American companies. For one thing 47% of all the products we make are sold outside the U.S.A. An action by the British Board of Trade or the India Import Bureau or the Brazilian Dept. of Commerce is much more to us than a four-line item in a domestic newspaper. But it has always been that way and the company had only two bad years in fifty-nine, so we are ploughing right ahead."

Sales for the first five months of this year are quite satisfactory, ahead of the same period last year in fact. But the situation many change abruptly.

Dividend payments in 1946 amounted to $3.50 a share and $2.50 was paid in the first half of 1947. Working capital is $8,-355,578.

On May 29, Parker announced development and production of a new fountain pen ink which writes dry by vertical penetration into the paper and not by evaporation or drying of the solvent.

Outlook For The Decisive Third Quarter

(Continued from page 306)

year. Corporate earnings should continue at high levels in most lines; dividends should be well maintained and may be increased. Even while corrective influences are at work, the stabilizing factors in the economic picture are likely to become increasingly prominent as we go on and may well contribute to a marked reversal of the widespread bearish feeling that has obtained in recent months. As earlier remarked, a mild start in this direction has already been made.

Revival of confidence, of course, requires "cultivation," to be sustained. Business must be placed into a position where it can have confidence in the future but by the same token it will have to show a very high order of constructive vision. Merely riding the crest of the prosperity wave will not do. What's needed are forward looking policies in the field of production and pricing. Government must guard against undermining the vigor of the economy by overtaxation. Labor must forego further wage demands and step up productivity.

Correction of price and cost maladjustments, if orderly, is nothing to be feared but is essential to postwar prosperity. The greater danger lies in undue delay of these needed corrections in the face of heavy and still urgent demand for capital and consumer durable goods at high prices. Inevitably, such delay would spell a far sharper corrective process later on but even then, latent demand for durable goods at **lower prices** is such that anything like a full-scale depression is difficult to envisage.

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How Close to the Bottom?

(*Continued from page* 303)

payments in the peace period to date.) This fact can not much longer be offset by business spending for inventory expansion, which is slowing down; or for plant betterment or enlargement, such outlays having already passed their peak. Finally, exports may drop from the present abnormal level, whatever Congress votes for foreign purposes, for it will neither be done soon enough to maintain the present outward flow of goods, nor will the appropriations be large enough to do so. It only needs to be added that Government budget and tax policy are definitely deflationary. All of the factors cited are basic. None can be called bullish.

—Monday, June 16.

As I See It!

(*Continued from page* 301)

Russian-led armies from Outer Mongolia are moving to establish themselves in Sainkiang as the first leg of a plan to conquer China. In Australia, too, the menace of communism is seriously threatening the position of the labor government through its control of the dock workers of the big coastal cities where the great industries are located.

It is no wonder General MacArthur is restless when he views the situation in that part of the world in the face of our apparent impotence to meet the onslaught, for communism is insidiously operating as actively in the Pacific as elsewhere.

It is clear that radical steps must be taken — and soon — for delay only plays into the hands of the Kremlin. Appeasement is futile and dangerous. To challenge Russia before the United Nations is sheer nonsense. The Soviet government has clearly demonstrated it has only contempt for public opinion and places its reliance entirely on the power of force. The manner in which they insult and humiliate us on every turn, speaks volumes for the low esteem in which they hold us and the certainty of their belief that we will not have the nerve to take decisive steps against them.

At this critical junction, Russia again moves to immunize our use of the Atom Bomb. Mr. Gromyko has opened the subject of Atomic Control with the object of insuring freedom of action for his country in their campaign of aggression, while he holds us in line through hypocritical proposals, which will only result in long drawn-out, pointless discussions and lead nowhere.

Since the coup in Hungary, concentration of Russian spokesmen on the Atom Bomb indicates the Soviets seek assurance regarding its use against them on the one hand —and on the other is endeavoring to find a means to outlaw this powerful weapon as far as the rest of the world is concerned — without giving up a single one of her objectives. We cannot permit this to happen as it would eliminate our most potent weapon for world peace. We know that the Atom Bomb is the only thing that Russia is afraid of. To destroy our stock of these bombs and to permit Russia to acquire the know-how, while retaining the veto, would be fatal—for the Kremlin once in possession would not hesitate to use it against us or any other nation regardless of world opinion.

At this stage of the game only courageous. well-balanced action will solve the problem — short of war. There can be no compromise with basic truth even though we realize that war is always an uncertain quantity, producing situations not bargained for as it has in the case of World War II. That is why Russia seeks to win by other means than active war in the field. and would, I believe. hesitate if she felt that we stand ready to stop her by force of arms.

Trend of Events

(*Continued from page* 300)

HIGHER PRICE FOR GOLD? . . . In the week ending June 13 three of industrial group stock indices registered the highest level attained for 1947. These were petroleum, soft drinks and gold mining. With shortages of oil and higher prices in the offing it is easy to understand why oil shares rose. Increased supplies of sugar and expanding consumption account for the betterment in soft drink company shares. But, the rise in gold stocks appears based on the persistent rumors of a coming increase in the price of gold, even though the Treasury Department has just as persistently denied such rumors in the past.

Because gold has always moved to higher prices throughout his-

tory, there is always a possibility that the price may be raised. That is why our index of gold mining shares advanced nearly 14% in a single week. It may also be a substantial contributing factor to intermediate general market improvement.

Producers of gold have for some time been asking for higher prices for the precious metal. Costs of machinery, supplies and labor have been mounting, while the price of their product has been stationary. Naturally, this has tended to squeeze the profit margins in their operations. Advent of war brought many restrictions which severely limited gold mining and forced lower earnings and the passage of dividends in some cases. With war past, gold miners believe that they should be allowed to build up income. Protagonists of an increased rate for gold believe, too, that it will have beneficial international implications.

The reasoning seems to be that if we raise the gold price it will mean a lower value for the dollar, so that foreign countries can take huge exports without draining away their buying power so quickly. Also, we would be paying more in dollars for imports, so the buying power of other countries would expand to that extent. This would help to close the gap between our exports and imports which is a problem of growing concern here and abroad.

However, other results would not be so acceptable. Inflationary spiral of prices would be accelerated here by such action, just at a time when we are trying to keep domestic prices down to preserve our real income and minimize labor demands.

From a market standpoint, a higher gold price would add fuel to the fire that the bulls are trying to build under speculative interest. Thus far, as reflected by curtailed volume of trading, the general public has been apathetic as to the desirability of increasing security commitments. Inflation, based on a lower value for our dollar, might well stimulate livelier market participation.

In the July 19th issue we are going to treat the gold question in an article which should be of real interest to every reader. This feature will cover the many aspects of the question as to the effects of a price increase. It will be well worth your study.